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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1991

NO.1 OF 1992

UNION GOVERNMENT—CIVIL

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PREFATORY REMARKS

This Report for the year ended 31 March 1991 has been prepared for submission to the President under Article 151 of the Constitution.

2. This Report (No.1) covers matters arising from the Finance Accounts of the Union Government (Civil) for 1990-91. The results of audit of Appropriation Acounts are also included. Other points arising from the test audit of the financial transactions of some of the Ministries and Departments of the Union Government are also included. Other Reports cover points relating to the remaining Ministries and Departments (No.6) and Scientific Departments (No.2), Railways (No.10), Defence (Nos.8 and 9), Posts and Telecommunications(No.7), Administration of Union Territory of Delhi (No.3) and Receipts of the Union Government (Nos. 4 and 5).

3. This Report (No.1) includes audit review reports on the following matters:-

(a) National Watershed Development Programme for Rainfed Areas

(b) Subsidy to indigenous manufacturers of fertilizers

(c) Export Assistance and

(d) External Assistance

4. The cases mentioned in this Report are among those which came to notice in the course of audit during 1990-91 and early

part of 1991-92 as well as those which came to notice in earlier years but could not be covered in the previous Reports. Matters relating to the transactions subsequent to 1990-91 have been mentioned, wherever relevant.

OVERVIEW

This Volume of the Audit Report for the year ended 31 March 1991 contains 65 paragraphs including 4 reviews. The points highlighted in the Report are given below.

Accounts of the Union Government.

I. Deficits and borrowings

The excess of revenue expenditure over revenue receipts into the Consolidated Fund of India during 1990-91 i.e. the revenue deficit was Rs.18561 crores. The excess of capital expenditure over capital receipts (including public debt) into the Fund was Rs.3337 crores bringing the total deficit in the Fund to Rs.21898 crores. The deficit in the Consolidated Fund was met by funds borrowed into the Public Account, payments from which are not subject to vote or appropriation by Parliament. Such borrowings by way of interest bearing obligations amounted to Rs.20049 crores, and deposits received as well as receipts into Reserve Funds to Rs.2533 crores. Such borrowing included treasury bills to cover the overall budgetary deficit of Rs.11347 crores during 1990-91 (against Rs.8261 crores in 1986-87). The monetised deficit (indicative of resources provided by RBI) in 1990-91 was Rs.15374 crores (against Rs.7091 crores in 1986-87). The fiscal deficit (indicating excess of revenue and capital expenditure over revenue receipts) went up from Rs.26341 crores in 1986-87 to Rs.44632 crores in 1990-91 and constituted 6.6 per cent of the GDP.

(Paragraphs 1.1, 1.2 and 1.10)

II. Return on direct Capital Outlay and Services rendered.

The progressive capital outlay by Government upto end of 1990-91 was Rs.122016 crores (inclusive of investment of Rs.47195 crores in Public Sector Undertakings etc.) out of the closing balance of Rs.190762 crores under head 'Government Account'. The balance of Rs.68,746 crores is indicative of the cumulative deficits over the last 10 years i.e. revenue and capital expenditures, as was not met by revenue receipts, but by borrowed moneys that did not lead to capital asset formation. The returns from the direct capital outlay of Rs.74822 by Government (excluding investment in Public Sector Undertakings etc.) as well as receipts by way of fees for services rendered (by incurring revenue expenditure) need to be correlated to Capital outlay and annual revenue expenditure by evolution of suitable norms in each Ministry and Department.

(Paragraphs 1.3 and 1.6)

III. Return on Investments

Rs.301 crores of dividends were received during 1990-91 from public sector enterprises on investment of Rs.37135 crores which was less than 1 per cent. No dividend was received from 193 enterprises in which Rs.33517 crores were invested. In addition, dividend of Rs.51 crores was received from nationalised banks (investment Rs.2861 crores) and Rs.70 crores from Industrial Development Bank of India (investment Rs.703 crores). Rs.210 crores of return was received from Reserve Bank of India, Rs.76 crores from Life Insurance Corporation and Rs.27 crores from General Insurance Corporation.

(Paragraph 1.7)

IV. Trend in Receipts

The growth in Government's Civil receipts (i.e. receipts other than the receipts of Railways, Posts, Telecommunications and Defence) which was 19 per cent in 1989-90 came down to 6 per cent in 1990-91. The receipts at Rs.67288 crores in 1990-91 was 13 per cent of the GDP, the lowest in the five years 1986-87 to 1990-91. Tax revenue accounting for Rs.53456 crores was only 10.41 per cent of GDP in 1990-91 compared to 11.78 per cent in 1986-87. The share of direct taxes (at Rs.6910 crores) had declined from 13.26 per cent of Tax Revenues in 1986-87 to 12.93

per cent in 1990-91. Interest receipts, continued to account for around 50 per cent of non-tax receipts of Rs.13832 crores during 1990-91; 68 per cent of the interest receipts were from the State Governments.

(Paragraph 1.4)

V. Trend in Expenditure

Revenue expenditure of the Government (excluding expenditure of Railways and Telecommunications but including expenditure on Defence and Posts, net of receipts) increased from Rs.48336 crores in 1986-87 to Rs.85849 crores in 1990-91. Interest payments accounted for 21 per cent of revenue expenditure during 1990-91. Interest payments on internal debt increased by 101 per cent between 1986-87 and 1990-91; corresponding increase was 139 per cent on interest paid on external debt and 170 per cent on other borrowings (small savings, provident funds etc.). During 1990-91 interest payment of Rs.3392 crores to the Reserve Bank of India comprised 35 per cent of the total interest payments on internal debt. Subsidies accounting for Rs.10213 crores in the revenue expenditure during 1990-91 were mostly on food (Rs.2450 crores), fertilisers (Rs.4389 crores) and export promotion and market development (Rs.2742 crores).

Capital expenditure by Government of Rs.13387 crores during 1990-91 was only 2.61 per cent of GDP as against 4.14 per cent in 1986-87.

(Paragraphs 1.5 and 1.6)

VI. Outstanding liabilities

In the Finance Accounts Internal Public Debt is given as Rs.154004 and External Public Debt as Rs.31525 crores, at the end of March 1991 and the latter is not adjusted for changes in exchange rates. The total debt of Rs.185529 crores had increased by 74 per cent between 1986-87 and 1990-91. The other liabilities of the Government (provident funds, small savings etc.), which usually carry higher rate of interest had increased by 115 per cent. Rs.40394 crores of guarantees by Government on loans taken by others was also outstanding as on 31st March 1991 which constitutes a contingent liability.

The cumulative amount of treasury bills outstanding at the end of the year had increased by 87 per cent from Rs.39626 crores in 1986-87 to Rs.74031 crores in 1990-91 indicating that the treasury bills are now used to finance long term debt though they are intended to be instruments for filling temporary resource gaps.

(Paragraph 1.10)

VII. Follow up on Accounts

In the Finance Accounts the figures of progressive Capital Outlay under various major heads need to be reflected under the minor heads which are prescribed for capital investment in Public Sector Undertakings, Cooperatives, Departmental Commercial Undertakings etc. (by making pre-period adjustments where necessary). So also the loans paid to them need to be reflected similarly. The interest earned on loans also need to be indicated against each minor head instead of showing it lumped for major heads only. Similarly, interest paid on internal debt needs to be given in the Finance Account minor headwise. These are necessary to enable Chief Accounting Authorities to become accountable for follow up action on the accounts, and use the departmentalised accounts for monitoring returns on capital, recovery of loan and interest etc.

The terms and conditions of loans aggregating Rs.1382 crores have not been finalised, and Rs.16789 crores were overdue for recovery on account of principal and interest. Necessary action needs to be taken by the Chief Accounting Authorities in the Ministries and Departments.

The accounts reveal the need for review of many balances and adjustments of apparent misclassifications or book keeping errors as indicated in the Chapters dealing with the Ministries and Departments.

(Paragraphs 1.6, 1.7, 1.8, 1.9, 1.10 and 1.11)

Appropriation Accounts

VIII. Excess and Savings

Out of 88 grants, in 5 grants, the expenditure in 1990-91 exceeded the amounts voted or appropriated (charged) under 'Revenue' or 'Capital' sections in the Appropriation Accounts. The 9 excesses in 5 grants require approval of Parliament by voting and appropriating the required excess grants.

In 12 grants (in 14 sections) amounts equivalent to supplementary grants or more remained unused.

In 36 grants there were significant savings in 43 Capital or Revenue Sections of the grants

(Paragraphs 2.3 and 2.4)

Departments of Agriculture & Co-operation and Agriculture Research and Education

IX. National Watershed Development Programme for Rainfed Areas

The National Watershed Development Programme for Rainfed Areas on which Rs.118.99 crores were spent during the years 1986-87 to 1990-91 for conserving and upgrading crop lands and waste lands was not well coordinated with on-going schemes for development of dryland agriculture.

The implementation of the Programme was not regularly or effectively monitored either at the State or Central levels. Site visits were not carried out. The Watershed Development Teams at grass root level were not even formed in Assam, Maharashtra, Orissa, Punjab, Rajasthan and Tamil Nadu. The allocation of funds at field level was to be worked out by reference to work needed on each land and what benefits would accrue from that land by execution of that work. But, the emphasis, in practice appeared to be on spending the allocated funds on land works in a watershed without reference to the minimum requirement of funds for the benefits to accrue from each arable land. The basis for monitoring was not the benefit derived from the land but expenditure incurred from allocations.

The crop improvement expenditure was to be incurred only in areas covered by land and moisture management works with a view to realise the additional yield potential from the land. In Andhra Pradesh, Gujarat and Karnataka crop improvement expenditure was incurred on 80,428 hectares, 6,780 hectares and 30,340 hectares of lands respectively, which were not covered by land and moisture management works. The avoidable expenditure on such crop improvement in Karnataka relating to fertiliser kits amounted to Rs.87.71 lakhs. In several States excessive or inadequate supply of seeds, fertilizers and pesticides were noticed as also misappropriation of pesticides, non-furnishing of account for consumption of fertilizers and issue of life expired pesticides.

On demonstration of crop improvement, adaptive trials for crop suitability and demonstration of tools and modern mechanical appliances, the planning was not detailed enough nor did it associate appropriate scientific agencies to effect change of practices and education of farmers. The shortcomings in the organisation of demonstration included non-holding of demonstrations, inadequate coverage, non-analysis of cost to benefit, non-checking of yields before and after the holding of demonstrations, incurring of expenditure higher or lower than the prescribed ceiling, misreporting of physical progress and purchase of seeds at higher rate from private sources.

Diversion of funds to unapproved activities (Rs.3.31 crores), retention of moneys outside Government accounts (Rs.11.31 crores), avoidable extra expenditure (Rs.5.01 crores) and spending of disproportionately large sums by States in the month of March were noticed.

(Paragraph 3.3)

X. Animal Quarantine

The Animal Quarantine and Certification Service Station set up in Madras in December 1974 was moved in April 1984 from a rented building to its own building constructed at a cost of Rs.83.36 lakhs. No livestock, animals or birds had been quarantined in the Station so far. The animal sheds, feed stores and laboratory constructed at a cost of Rs.39.42 lakhs remained unused. Two out of thirteen residential quarters constructed at a cost of Rs.14 lakhs remained vacant since construction. Equipment costing Rs.4.37 lakhs remained largely unused as the laboratory tests were done at other approved laboratories. The infection stage animal carrier costing Rs.2.62 lakhs was also not fully used as intended.

(Paragraph 3.4)

XI. Central Poultry Breeding Farm, Bombay

The Central Poultry Breeding Farm at Bombay set up in 1959, incurred loss of Rs.89.77 lakhs from 1985-86 to 1990-91. Against production target of 54400 chicks, only 20,000 chicks were produced during the years. Hatchable eggs were not used for production of chicks but were sold at lower price as 'table eggs' resulting in loss of Rs.33.96 lakhs.

(Paragraph 3.5)

Department of Fertilizers

XII. Subsidy on indigenous fertilizers

For paying fertilizer subsidy to production units, the cost data which formed the basis for fixation of retention prices, was not independently verified by the Fertilizer Industry Coordination

Committee (FICC) nor standard cost records prescribed. Data was not also checked by the Cost Accounts Branch of the Ministry of Finance or the Bureau of Industrial Costs and Prices.

Extra subsidy was paid by assuming that certain amount of tax would be paid but actual tax paid was not ascertained and subsidy revised accordingly. Avoidable excess payment of subsidy amounted to Rs.103.22 crores per year to five production units.

Cheaper imported ammonia and phosphoric acid was used in excess of the estimated quantities of imported ammonia and phosphoric acid assumed in the fixation of retention prices, resulting in excess outgo of subsidy, because of failure of FICC to revise the retention prices based on actual usage of imported chemicals. Refund of subsidy was not claimed by FICC though one unit made a provision for refunding excess subsidy of Rs.24.23 crores. Recovery of Rs.119.55 lakhs due from units on other accounts was not made by the FICC till it was pointed out in Audit.

Marketing expenses were not allowed on a normative basis in the computation of retention price but on actual expenditure incurred by the units including expenditure on excessive staff, leading to excess outgo of subsidy amounting to Rs.63.55 crores during the years 1988-91 in respect of 45 plants.

The FICC did not examine how production could have exceeded installed capacity and whether the reported installed capacity needed to be re-assessed and the retention prices refixed, so as to reduce the subsidy payable.

(Paragraph 5.2)

Ministry of Commerce

XIII. Export Assistance

Despite numerous export promotional measures, the country's share in the world trade declined from

0.6 per cent in 1970 to 0.4 per cent in 1986 and annual trade deficit has been a recurring feature of the Foreign Trade. Rate of growth of exports had not been fast enough to reverse the trade deficit which increased from Rs.5390.52 crores in 1984-85 to Rs.7898.50 crores in 1988-89. The trade surplus with Rupee Payment Areas (RPA) necessitated grant of technical credits to the countries receiving Indian exports and not increase in export earnings. Non-traditional items accounted for 47.73 per cent of the total exports in 1983-84 and 69.87 per cent in 1988-89 but the export promotional strategies did not result in development and holding of identified markets for non-traditional items in identified countries, especially in the General Currency Areas. The growth in exports did not keep in step with domestic growth and the export targets were not fixed so as to ensure that export growth kept in step with domestic growth.

Exports from the Export Processing Zone and 100 per cent Export oriented units was less than 3 per cent and 2 per cent respectively of total exports. Exports of Public sector undertakings also came down from 49.65 per cent of total exports in the year 1984-85 to 24.13 per cent in 1988-89, while 581 MRTP and large companies imported more than what they exported.

Exports of engineering goods stagnated between Rs.1000 and Rs.1204 crores during the years 1981-82 to 1986-87. The export targets though they were modest were not achieved during the years 1981-82 to 1988-89. For more than 50 per cent engineering goods, CCS rates from 1.4.1989 were not fixed on representative data and higher rates of CCS were allowed on the exports of electronic items, machine tools and hand tools than justified by cost and other data, resulting in avoidable extra payment of CCS.

India's share of export of leather and leather products in the world market continued to be marginal (2.67 per cent in 1987), despite the rich availability of raw material and low labour costs.

Exports continued to be of low value added items. This was despite leather and leather products being identified as a thrust sector of export and greater flexibility allowed in the Import export Policy. The rates of CCS from 1.4.1989 were fixed on unrepresentative data and in the case of 'industrial leather gloves' and 'leather garments' the cost and other data justified a lower rate of CCS than that allowed by the Ministry, resulting in avoidable extra payment of CCS.

Overpayment of CCS amounting to Rs.9.72 crores made in offices of CCIE were still to be recovered. In 67 cases of advance licensing for imports, exports obligations amounting to Rs.45.45 crores were not fulfilled. In 9547 cases of exports, with foreign exchange earnings amounting to Rs.125 crores upto the end of 1987-88; the system for watching foreign exchange realisation could not ensure that earnings had come in.

The value of import licences issued for export promotion rose from 27 per cent of import licences issued in 1980-81 to 34 per cent in 1985-86 and 61.38 per cent in 1988-89. As a percentage of exports the share of export linked import licences increased from 21 per cent in 1980-81 to 42 per cent in 1988-89. Around 30 per cent imports were linked to around 40 per cent of exports in 1988-89 (against only 10 per cent of imports linked to 20 per cent of exports in 1980-81) indicating an increasing trend import linked export.

During the years 1987-88 to 1989-90 the rupee concessions and export incentives allowed on export was relatively very high (upto 250 per cent of foreign exchange earned at official rates of exchange) on electronic goods as compared to hand tools, automobiles, bicycles and leather goods (upto 67 per cent of foreign exchange earned).

(Paragraph 7.3)

Department of Supply

XIV. Failure to meet needs of indenters

Directorate General of Supplies and Disposals placed orders for one ship and two tugs at a cost of Rs.4.02 crores on an untried firm, ignoring other acceptable tenders. The bank guarantees given by the untried firm were not genuine. Matter is under arbitration and no deliveries were made to indenters nor likely to be made even after 11 years.

(Paragraph 8.2)

XV. Unused equipment

Of seven equipments costing Rs.36.48 lakhs imported by the Directorate General of Supplies and Disposals for the National Test house between December 1978 to July 1987 one was received in damaged condition, four were defective, one equipment was not installed by the Indian agents though required under the contract and one equipment was not installed because civil works had not been completed. The equipments are lying idle for 4 to 13 years.

(Paragraph 8.3)

XVI. Failure to meet indenter's need in time

A contract for supply of 16,560 steel trunks for Police was cancelled by the Directorate General of Supplies and Disposals at the risk and cost of the Supplier for non-supply of part quantity. Successive risk purchase orders for the supply of balance quantity were also cancelled at the risk and cost of the previous suppliers. Supplies were completed after delay of more than six years and extra expenditure of Rs.11.33 lakhs.

(Paragraph 8.5)

XVII. Inspection of defective creamwove paper

The Directorate General of Supplies and Disposals tested and purchased creamwove paper for the Government of India Press, Aligarh, which also got them tested in the Government of India, Stationery Office (accredited testing laboratory). Laboratory test revealed that paper valuing Rs.10.42 lakhs was unacceptable but the Press used the defective stores to avoid disturbance in production.

(Paragraph 8.6)

XVIII. Avoidable extra expenditure on Galvanised steel wire

The decision by the Directorate General of Supplies and Disposals, to reject the first set of tenders for purchase of hot dip galvanised mild steel wire by reference to a rate quoted by an unregistered firm resulted in the Railways having to incur extra expenditure of Rs.42.34 lakhs, and delay of 15 months in receiving stores.

(Paragraph 8.8.1)

Ministry of External Affairs

XIX. Magazine "INDIA"

Embassy of India Washington (Embassy) decided in September 1989 to bring out a monthly publication 'INDIA' in lieu of existing four separate publications including one brought out by its Consulate at New York. After bringing out four issues from January 1990, the Embassy discontinued the new publication and resumed the earlier four publications in August 1990. Against 10,000 copies of the new magazine, only 325 were subscribed and 900 were distributed free. The revenue earned by way of advertisement was negligible. Expenditure of $ 1.31 lakhs (Rs.21.41 lakhs) incurred on the new magazine proved infructuous.

(Paragraph 11.3)

XX. External Assistance

During the six years 1985-91 external assistance contracted amounted to Rs.26380 crores at ex-IMF parity rates but only Rs.13605 crores was actually received (utilised); utilisation declined from 73 per cent in 1985-86 to 67 per cent in 1990-91.

While the gross amounts of loans and grants increased by Rs.3768 crores from Rs.2936 crores in 1985-86 to Rs.6704 crores in 1990-91, i.e. by more than 100 per cent, the net inward transfer by way of external assistance (after adjusting the outgo), increased from Rs.1569 crores to Rs.2422 crores i.e. by 54 percent only during the same period. The repayment of external loans and interest took away upto 64 percent from the gross external assistance received during 1990-91 as compared to 47 per cent in 1985-86. Inclusive of service charges paid to the IMF, more than two thirds of the additional loans and grants got adjusted against repayment of past loans, interest and service charges thereon.

The figure of external debt as on 31st March 1991 as per Government accounts was Rs.31525 crores; external debt guaranteed was Rs.20965 crores in addition. These amounts are not at a fixed exchange rate nor have they been updated at current exchange rates. The figures of external debt given in the Economic Survey are based on the year-end exchange rates. According to these figures the country's external debt increased from Rs.40311 crores in 1985-86 to Rs.100425 crores in 1990-91.

The proportion of amortisation and interest payments to exports and invisibles peaked to 24 per cent in 1987-88 from 17 per cent in 1985-86 and only marginally declined to 21.6 per cent in 1989-90. Foreign exchange reserves as on 31st March 1990 were not sufficient even to meet the cost of servicing external debt during 1989-90.

The outstanding amount of External Commercial Borrowings (ECB) increased from Rs.7647 crores to Rs.26706 crores between March 1986 and March 1991. ECB's accounted for 19 per cent of external debt in 1985-86 and 27 per cent in 1990-91. Because of their shorter maturity, the debt servicing attributable to ECB was 41 per cent of the total debt servicing during 1990-91. The net transfer as a percentage of ECB disbursements declined from 35 in 1985-86 to 28 in 1989-90 and was negative at minus Rs.956 crores in 1990-91.

The NRI deposits (not included in external debt) repayable in foreign currency have increased from Rs.5650 crores in 1985-86 to Rs.20754 crores in 1990-91. These deposits which are repatriable at any time without reference to the Reserve Bank of India amounted to 180 per cent of country's foreign exchange reserves as on 31st March 1991.

The total debt service payment of external loans on Government account and ECB are estimated to increase from Rs.6727 crores in 1989-90 to Rs.15239 crores in 1995-96 as per exchange rate on 8th July 1991 up by 127 per cent. The downward adjustment of exchange rates from 8th July 1991 has resulted in 33 per cent increase in debt service payment every year. This is exclusive of service charges payable to IMF. No specific projections of likely arrangements for servicing of external debt were made available.

The Ministry did not maintain separate record of commitment charges paid on foreign loans as part of the terms and conditions of these loans and those paid on account of delay/incomplete draw down of loans. In six cases alone, avoidable commitment charges aggregating US $17.67 million were paid because of delay/incomplete drawal.

Incorrect computation of composite rate of exchange resulted in short recovery of Rs.346.67 lakhs from importers on whose behalf payments in foreign currencies were made. A further sum of Rs.359.66 lakhs was short recovered from importers because of adoption of incorrect date of utilisation. Incidental charges amounting to Rs.17.66 lakhs were not recovered from importers during 1985-88. A sum of Rs.32.82 lakhs was short recovered from importers because of levy of interest at lower rates.

Contrary to the prescribed procedure, the negotiable documents were released to two Public Sector Undertakings without obtaining rupee payments. A sum of Rs.179.99 crores was recoverable from these Undertakings.

The year-wise details of amount recoverable from the importers was not available.

An instalment of loan of 7 million roubles was received in April 1988 from the Bank of Economic Affairs USSR for Tehri Hydro Power Project, even before the project authority was constituted, resulting in avoidable extra payment of interest.

The outstanding amounts as per records of the Aid Accounts sections did not agree with the amounts outstanding as per records of Pay and Accounts Office.

The Ministry needs to introduce a proper system of revaluation of external liabilities in Government accounts with reference to exchange rate variations, improve the utilisation of external assistance, prepare proper and realistic schedules of draw down of loans before contracting loans and maintain separate records of commitment charges paid consequent to delayed/inadequate draw down of loans as distinguished from unavoidable commitment charges payments similar to service charges for ensuring better accountability. The Ministry needs to conduct comprehensive review of rupee deposits received from the importers for recovery of amounts - short recovered and also enforce the prescribed procedure of reporting cases of defaulting importers to the Reserve Bank of India.

(Paragraph 12.3)

XXI. Loss of interest to Government by default of its agents

The Reserve Bank of India is responsible for the management of Government's public debt and issue of new loans of the Central Government. Crediting the Government account after closure of the subscription to the loans were delayed upto 148 days and Government had to pay interest on the amounts even for the periods they had not entered the Government account. Such interest liability, after allowing for delays upto seven days, amounted to Rs.1.03 crores.

(Paragraph 12.4)

XXII. Alkaloid Plants

The Alkaloid plants at Neemuch and Gazipur were to be modernised at a cost of Rs.230 lakhs by April 1984 and April 1985. At Neemuch the work had not been completed till March 1991, after spending Rs.98.41 lakhs. Equipment and machinery procured in 1985 and 1987 at a cost of Rs.33.89 lakhs were lying idle. No project report on the modernisation was submitted by the consultants, National Chemical Laboratory. In Gazipur also, after incurring expenditure of Rs.89.27 lakhs, equipment had not been commissioned so far. Production of codein at 95 per cent on potential to potential basis was not achieved.

(Paragraph 12.7)

Ministry of Food and Civil Supplies and Food Processing Industries

XXIII. Avoidable extra expenditure on Import of Sugar

On urgent import of 2.02 lakh tonnes of sugar, negotiations based on bids of un-registered tenderers led ultimately to payment of higher rates to registered tenderers and extra expenditure of Rs.3.85 crores. There was also delay in the supplies, urgently needed.

(Paragraph 13.3)

CHAPTER I

Accounts of the Union Government

1.1 Receipts and Expenditure

The summary statements of receipts and expenditure of the Union Government for 1990-91 as reflected in the Finance Accounts are given below, alongwith figures for the previous year. The references to statements of the Finance Accounts are given in brackets.

Consolidated Fund of India

(Rupees in crores)

1989-90		1990-91	1989-90		1990-91
		Revenue Account			
78223.53	Revenue receipts (Statement No.8)	84402.81	90137.73	Revenue Expenditure (Statement No.8)	102964.17
11914.20	Revenue Deficit	18561.36			
90137.73		102964.17	90137.73		102964.17
		Capital Account			
0.48	Capital Receipts (Statement No.8)	*(-)0.32	13399.78	Capital Expenditure (Statement No.10)	13387.32
5459.95	Loans and Advances received (Statement No.15)	6768.58	17369.90	Loans and Advances paid (Statement No.15)	20708.37
123202.65	Receipts from additional Public Debt (Statement No.14)	105652.04	101912.42	Repayment of Public Debt (Statement No.14)	81661.13

4019.02	Capital	3336.52		
132682.10	Deficit	115756.82	132682.10	115756.82
15933.22	Total deficit in Consolidated Fund	21897.88		

* Minus transaction represents rectification of previous year's misclassification.

The figures of expenditure for 1990-91 in the above summary are agreed with the figures of expenditure (Revenue and Capital) reflected in the Appropriation Accounts (Civil, Defence, Railways and Post and Telecommunication) as given below:-

(Rupees in crores)

Appropriation Account	Revenue			Capital		
	Expenditure from Grants and Appropriation	Recoveries	Net Expenditure	Expenditure from Grants and Appropriation	Recoveries	Net Expenditure
Civil	76338.71	1555.38	74783.33	110030.44	881.63	109148.81
Defence	11443.76	151.76	11292.00	4552.40	0.05	4552.35
Post and Telecommunication	4937.59	500.30	4437.29	2512.34	2088.54	423.80
Railways	12710.51	258.96	12451.55	5719.91	4088.05	1631.86
Total	105430.57	2466.40	102964.17	122815.09	7058.27	115756.82

The total net expenditure figures as per Appropriation Accounts above agree with the figures in the summary of receipts and expenditure in Finance Accounts. The recoveries shown in Appropriation Accounts generally relate to funded monies used on stores purchased in earlier years going into cost of services, included in the gross demand which is voted or appropriated. As there is no cash outgo in current year on the past credits used, they are deducted to arrive at net expenditure booked in the finance account. Some recoveries are also in the nature of expenditure borne in current year under one service, being transferred to another service e.g. establishment charges on savings bank staff met from postal grant transferred to interest and savings management grant of Ministry of Finance which also provides for the charges in its grant. In the finance accounts such charges are booked only once under the interest service head of account.

1.2 Financing of Expenditure

The revenue and capital expenditure in 1990-91 from the Consolidated Fund was partly financed out of the revenue and capital receipts as indicated in para 1.1. The revenue and capital deficit in the Consolidated Fund was met out of funds borrowed into the Public Account (payment from which are not subject to vote or appropriation of Parliament) as given below. Reference to statements in the Finance Accounts (wherein transactions in Public Account are also shown) is given within brackets.

Public Account

(Rupees in crores)

1989-90		1990-91	1989-90		1990-91
18535.88	Net addition to interest bearing obligations like small savings Provident Fund etc. (Statement No.14)	20049.12	1716.04	* Net reduction in deposits received into Public Account (Statement No.13)	--
310.10	* Net addition to Reserve Funds (Statement No.13)	516.83	404.01	Net increase in advances given out of Public Account (Statement No.13)	172.50
	Net addition in deposits received into Public Account (Statement No.13)	2016.54	90.78	Net increase in debit amounts lying in suspense and Miscellaneous accounts pending final booking in Consolidated Fund or Public Account Head (Statement No.13)	325.47
	Net increase in credit amount lying in Remittance accounts pending final booking in Consolidated Fund or Public Account Head (Statement No.13)	235.66			
			382.99	Net increase in debit amounts lying in Remittance accounts pending final booking in Consolidated Fund or Public Account Head (Statement No.13)	
			318.94	Net increase in cash balance with RBI (Statement No.13)	422.30
			15933.22	Net deficit in Consolidated Fund	21897.88
18845.98		22818.15	18845.98		22818.15

* Net of amounts lying in investment accounts, if any, accounted for in Public Account.

1.3 Assets and Liabilities

Assets are created mostly out of Capital expenditure, resulting in tangible and intangible assets as are capable of generating revenues and returns (eg. factories, dairies etc.); or they give service and/or reduce revenue expenditure in future years (eg. office buildings). In addition, financial assets arise from moneys invested in institutions or undertakings outside the Government (e.g. Public Sector Undertakings, Corporations) and loans and advances given which are returnable and which generate interest receipts.

The liabilities arise in the nature of Public Debt contracted in India and abroad taken into Consolidated Fund of India and interest bearing obligations taken on in the form of small savings, Provident Fund monies and other deposits taken from outside Government; they are in the nature of fiduciary (or trust) monies. There are also Reserve Fund monies (interest bearing and non-interest bearing) created out of receipts and accounted for in Public Account and belonging to the Government which has taken on the obligation to use them for specified purposes. Advances are also made out of monies in the Public Account and get accounted for outside the Consolidated Fund. Such advances are made to meet urgent expenditures and are made without approval of Parliament.

The amounts lying in Suspense and Miscellaneous Accounts and Remittance Accounts are amounts pending final adjustment in accounts and get accounted for in the Public Account outside the Consolidated Fund. They could be liabilities or assets, real or fictitious.

The Revenue (Receipts and Expenditure) Account and the Capital (receipts and expenditure) Account and other accounts in Consolidated Fund (but other than loan and public debt accounts) are closed every year and new accounts opened in the following year. Thus the closing surplus or deficit in Revenue and Capital Accounts in the Consolidated Fund (other than Public Debt and loans accounts) get transferred to head 'Government Account'. The Government Account thus balances the continuing accounts of assets and liabilities, under Public Debt and Loans account in the Consolidated Fund, the Contingency Fund and the Deposits, Advances, Funds, Suspense, Remittance etc. accounts and cash balance in the Public Account.

The summary of the balances of assets and liabilities (given in statement No.5 of Finance Accounts) as at the end of 1990-91 and at the end of some of the previous years is given below:

Balancing at the end of

(Rupees in crores)

		1990-91	1989-90	1980-81	1970-71	1960-61	1950-51
Consolidated Fund							
1.	Government Account	190762 (Dr.)	158803 (Dr.)	27604 (Dr.)	10048 (Dr.)	4393 (Dr.)	2606 (Dr.)
2.	Public Debt	185529 (Cr.)	161536 (Cr.)	42162 (Cr.)	14150 (Cr.)	4760 (Cr.)	2042 (Cr.)
3.	Loans and Advances to States and Union Territories	74111 (Dr.)	64242 (Dr.)	17335 (Dr.)	6398 (Dr.)	1910 (Dr.)	196 (Dr.)
4.	Loans and Advances to others	40614 (Dr.)	36734 (Dr.)	12502 (Dr.)	3016 (Dr.)	625 (Dr.)	25 (Dr.)
5.	Contingency Fund	50 (Cr.)	50 (Cr.)	50 (Cr.)	30 (Cr.)	15 (Cr.)	15 (Cr.)

		1990-91	1989-90	1980-81	1970-71	1960-61	1950-51
Public Account							
6.	Small savings, Provident Fund etc.	107107 (Cr.)	87064 (Cr.)	13953 (Cr.)	3956 (Cr.)	1521 (Cr.)	445 (Cr.)
7.	Other Deposits (net of investment account, if any)	18909 (Cr.)	17103 (Cr.)	2266 (Cr.)	1757 (Cr.)	622 (Cr.)	402 (Cr.)
8.	Reserve Funds (net of investment account, if any)	3012 (Cr.)	2490 (Cr.)	1368 (Cr.)	NA	NA	NA
9.	Advances .	1326 (Dr.)	1154 (Dr.)	243 (Dr.)	85 (Dr.)	50 (Dr.)	35 (Dr.)
10.	Suspense and Miscellaneous	3484 (Dr.)	3186 (Dr.)	1140 (Dr.)	13 (Cr.)	115 (Cr.)	130 (Cr.)
11.	Remittance Accounts	2423 (Dr.)	2659 (Dr.)	236 (Dr.)	127 (Dr.)	15 (Dr.)	16 (Dr.)
12.	Cash Balance	1887** (Dr.)	1465 (Dr.)	739 (Dr.)	232 (Dr.)	40 (Dr.)	156 (Dr.)
	Total * (Net of Debit and and Credit Balances)	Nil	Nil	Nil	Nil	Nil	Nil

@ Negligible on rounding off of debits (investments) and credits

* Nil indicates balance of assets and liabilities.

** The closing cash balance as per Reserve Bank of India was Rs.1685 crores. The difference had not been reconciled.

In summary, the 'Government Account' of Rs.190762 crores at the end of 1990-91 represents accumulated assets and surplus/deficits. The Nil total in table above indicates that the balance in 'Government Account' (Rs. 190762 crores) and loans of Rs.74111 crores and Rs.40614 crores in 1990-91 to State Governments and others (some of which could add to deficit if they become bad debts) amounting to Rs.305487 crores were financed by Public Debt and fiduciary deposits taken from outside the Government. At the end of 1990-91 the Public Debt was Rs.185529 crores and fiduciary deposits taken were Rs.126018 crores (amounting to Rs.311547 crores).

The component of assets (progressive Capital Outlay) in 'Government Account' (as opposed to accumulated surplus/ deficits) has a significance. This component at end of 1990-91 was 68 per cent of Government Account, but it was 108 per cent at the end of 1980-81 and 116 per cent at the end of 1970-71 i.e. component of surplus in Government Account had apparently over taken accumulated deficits in 1971 and 1981. It is the capital outlay component (along with unaccounted assets of Government eg. Government lands, forests) which can generate monies by way of returns, that will, in addition to taxes and capital receipts (by sale of rights on property etc.) help to pay off debts and deposits, when necessary. The percentage return from this component of assets i.e. the progressive capital outlay in the head 'Government Account' (as also assets created, if any, even out of Revenue expenditure, in the past) has thus significance, which the accounts reflect. See also paragraph 1.6.

1.4 Revenue Receipts

(a) The revenue receipts (excluding State's share of Income Tax and Estate Duty and Union Territories share of Estate Duty on agricultural land) during the year 1990-91 and previous four years are given below:-

(Rupees in crores)

Year	Budget Estimates	Revised Estimates	Actual		
			Total Revenue of Central Government	Percentage growth over the previous year	Percentage of revenue receipts to GDP
1986-87	46737.80	51353.96	50332.31	16	19
1987-88	56246.84	58069.52	56757.60	13	19
1988-89	65167.33	65830.78	65900.23	16	19
1989-90	78283.26	78304.14	78223.53	19	20
1990-91	87768.67	86916.85	84402.81	8	16

The estimates of revenue receipts for 1990-91 were relatively higher than the actuals in comparison to previous years.

Excluding the receipts of Railways, Telecommunications, Posts and Defence, the Civil receipts were as under:

(Rupees in crores)

Year	Budget Estimates	Revised Estimates	Actual		
			Actual receipts (unit)	Percentage growth over the previous year	Percentage of revenue receipts to GDP
1986-87	37537.86	41491.90	40559.81	16	16
1987-88	45220.01	46609.03	45405.25	12	15
1988-89	51913.06	52535.86	52971.28	17	15
1989-90	63578.33	63221.84	63276.61	19	16
1990-91	70038.75	69627.26	67287.75	6	13

The fall in the rate of growth of revenue receipts during 1990-91 is mainly due to a decline in non-tax revenue receipts.

(b) The component of tax revenue in the revenue receipts (Civil) was as given below:-

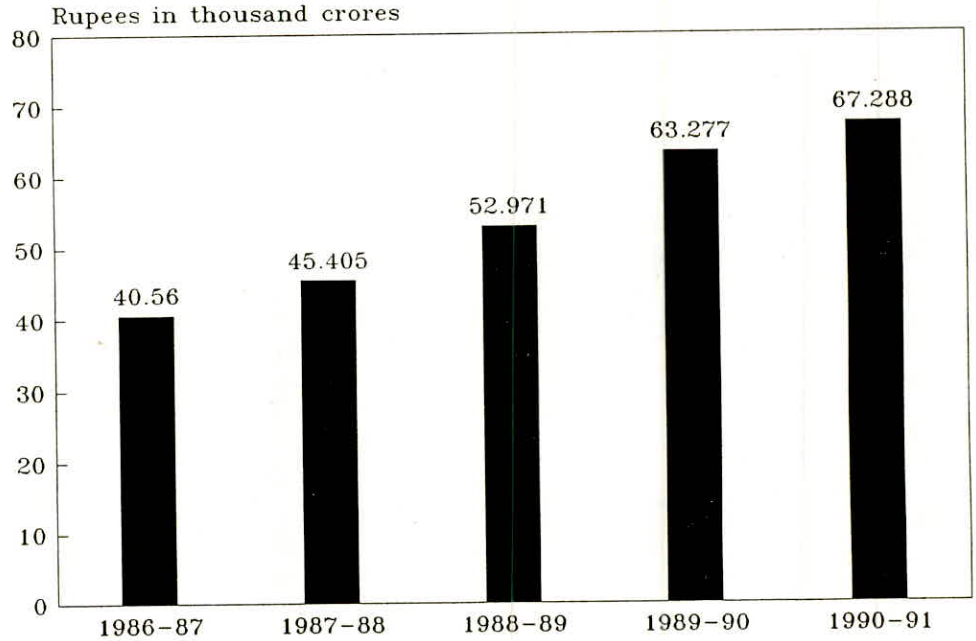
(Rupees in crores)

Year	Tax Revenue	Percentage growth over previous year	Gross Domestic Product	Percentage of tax revenue to GDP	Percentage growth of GDP over previous year
1986-87	30668	14.41	260442	11.78	11.22
1987-88	35070	14.35	294408	11.91	13.04
1988-89	41724	18.97	351724	11.86	19.47
1989-90	47714	14.36	395143	12.08	12.34
1990-91	53456	12.03	513612	10.41	29.88

Tax revenue as a percentage of GDP has tended to decline.

(c) In the total tax revenue, the share of direct taxes (Income Tax, Corporation Tax and Wealth Tax mainly) has declined in comparison to that of indirect taxes (Customs Duties and Union Excise Duties mainly).

Revenue Receipts



(Rupees in crores)

Year	Direct taxes	Percentage growth over the previous year	Indirect taxes	Percentage growth over the previous year	Percentage of Direct Taxes in total tax revenue
1986-87	4066	8.22	26602	15.42	13.26
1987-88	4161	2.34	30909	16.19	11.86
1988-89	6079	46.09	35645	15.32	14.57
1989-90	6087	0.13	41627	16.78	12.76
1990-91	6910	13.52	46546	11.82	12.93

Receipts from Indirect Taxes have increased by 75 per cent between 1986-87 and 1990-91, while direct tax receipts increased by 70 per cent. Receipts from indirect taxes constituted 9.06 per cent of GDP in 1990-91, while receipts from direct taxes were 1.38 per cent of GDP.

Further comments on Tax revenue receipts (direct and indirect) are given in a separate Audit Report on Revenue Receipts.

(d) The trend of non-tax revenue (Civil) is given below.

(Rupees in crores)

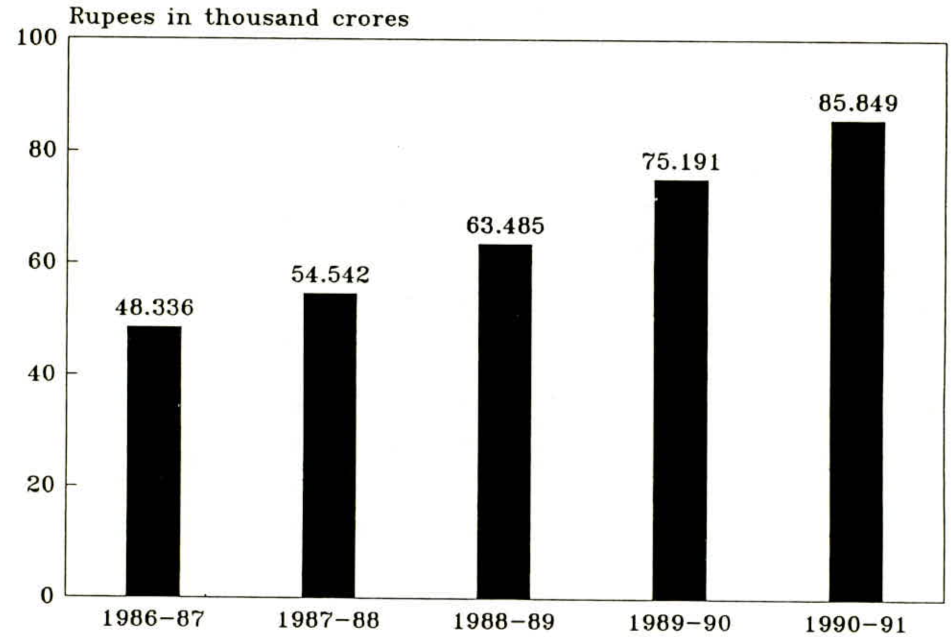
Year	Non-tax revenue (Civil)	Percentage growth over the previous year
1986-87	9891.52	23.21
1987-88	10334.81	4.48
1988-89	11247.20	8.83
1989-90	15562.50	38.37
1990-91	13831.62	(-) 11.12

The apparent decline in non-tax revenue in 1990-91 was the result of lapsing of deposits of Rs.2300 crores of the Oil Coordination Committee lodged in the Public Account to the revenue receipts in 1989-90. Even if that amount is excluded from non tax receipts in 1989-90, the growth in 1990-91 over 1989-90 was still only 3.5 per cent.

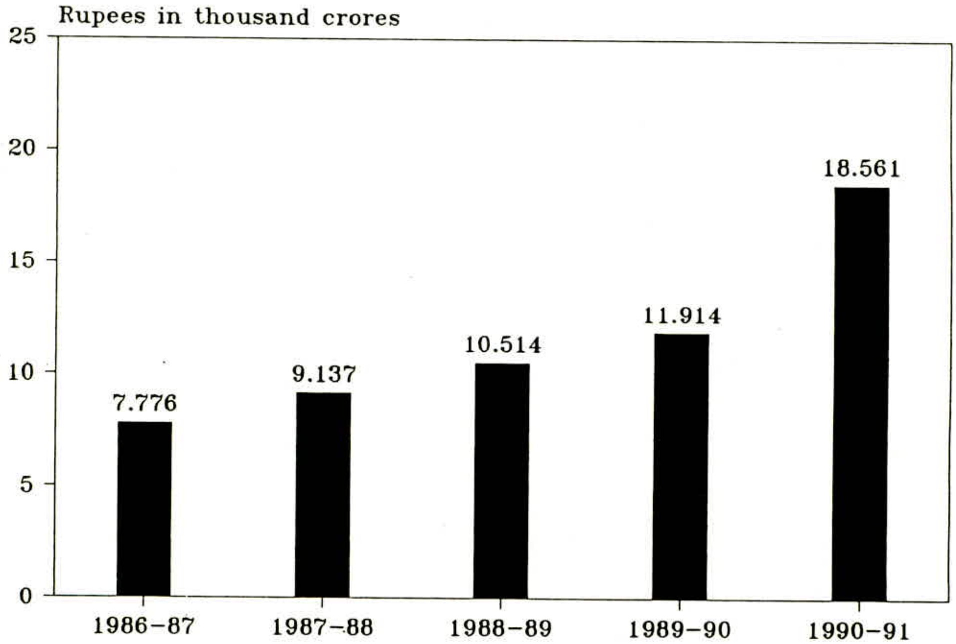
(e) Interest receipts (Rs.7580 crores in 1990-91) continue to account for around 50 per cent of non-tax receipts (Rs.13832 crores). The receipts on account of interest increased from Rs.5353 crores in 1986-87 to Rs.7580 crores in 1990-91. Rs.5174 crores came from loans given to State Governments and the Union Territories (amounting to Rs.74111 crores by end of 1990-91). The significantly low interest receipts of Rs.1355 crores on loans given to others (as per figures in Statement No.15 of Finance Accounts) on loans amounting to Rs.40614 crores at the end of 1990-91 needs looking into. Though such interest receipts are given as Rs.2406 crores in head 0049-03, it includes interest by book transfer from Commercial Undertakings whose capital is booked to Capital expenditure head and not loan heads. The component of interest booked under head 0049-03-190 as interest on loans given to Public Sector and other Undertakings (Rs.1782 crores) needs therefore to be reconciled with interest on loans to all others (Rs.1355 crores in Statement No.15. Apparently, the allocation of interest received and booked under head 0049-03 over the loaneewise, minor headwise and major headwise laons in statement no.15 is incorrect. The correction is necessary so that the Finance Accounts can serve to monitor accountability for returns on all loans given through statement No.15. All overdue interest and loan instalments for repayment need to be reflected, Ministry and Department wise, in Statement No.3 of Finance Accounts indicating therein amount of loan outstanding and amounts of instalments over due for payment, separately.(See para 1.9 also)

(f) Receipts of grants including aid material from foreign countries and international organisations was Rs.586 crores during 1990-91 (budget estimate was Rs.808 crores).

Revenue Expenditure



Revenue Deficit



1.5 Revenue Expenditure

The growth of revenue expenditure (Plan and non-Plan) during the last five years was as given below:

(Rupees in crores)

Year	Revenue Expenditure			Revenue deficit	Percentage of deficit to non-plan expenditure
	Plan	Non-plan	Total		
1986-87	8286	49625	57911	7776	15.67
1987-88	9986	55909	65895	9137	16.34
1988-89	11212	65203	76415	10514	16.13
1989-90	12071	78067	90138	11914	15.26
1990-91	12703	90261	102964	18561	20.56

In 1990-91 interest payments accounted for 21 per cent of the revenue expenditure and the share of Union Excise Duties and grants passed on to States and Union Territories accounted for 28 per cent of the revenue expenditure and constituted 44 per cent of the tax revenue of the Union Government in 1990-91 (Rs.53456 crores).

The revenue expenditure as a whole increased by 78 per cent over the five year period 1986-87 to 1990-91 and non-plan revenue expenditure increased by 82 per cent during the same period.

The revenue expenditure (excluding expenditure on Railways and Telecommunications but including expenditure on Defence and Posts, net of receipts) is given below:

(Rupees in crores)

Year	Revenue Expenditure			Revenue deficit	Percentage of deficit to non-plan expenditure
	Plan	Non-plan	Total		
1986-87	8216	40120	48336	7776	19.38
1987-88	9905	44637	54542	9137	20.47
1988-89	11115	52370	63485	10514	20.08
1989-90	11975	63216	75191	11914	18.85
1990-91	12615	73234	85849	18561	25.34

The revenue expenditure (both Plan and non-Plan) during 1990-91 was Rs.85849.11 crores as against Rs.75190.79 crores during 1989-90. The major increase was on account of interest payments (Rs.3741 crores), write off of loans to State Governments (Rs.1025 crores), scheme for debt relief to farmers (Rs.1502 crores), larger payments of grants to State Governments on account of the share of Union Excise duties (Rs.1104 crores) and more expenditure under Jawahar Rozgar Yojana (Rs.4558.23 crores).

The non-Plan grants of Rs.4214 crores made to the State Governments during 1990-91 registered an increase of Rs.1851 crores over the amount released in 1989-90 and the Plan grants amounting to Rs.9079 crores went up by Rs.2728 crores over 1989-90.

The trend in interest payments (accounting for 21 per cent of revenue expenditure during 1990-91) is given below:

(Rupees in crores)

Year	Interest on				Total
	Internal Debt	External Debt	Small Savings and Provident Fund	Others	
1986-87	4763	766	3489	228	9246
1987-88	5514	977	4490	270	11251
1988-89	6913	1242	5801	322	14278
1989-90	8273	1494	7573	417	17757
1990-91	9814	1834	9413	437	21498

The interest payments on internal debt increased by 101 per cent from Rs.4763 crores to Rs.9814 crores between 1986-87 to 1990-91, while the increase in interest payments on external debt and small savings and provident fund were 139 per cent and 170 per cent respectively. The interest payments to the Reserve Bank of India (included in the interest on internal debt) increased from Rs.1654 crores in 1986-87 to Rs.3392 crores in 1990-91. During 1990-91 interest payments to the Reserve Bank of India comprised 35 per cent of the interest payments on internal debt.

Subsidies accounted for Rs.10213 crores of the total revenue expenditure during 1990-91, and was mainly for food (Rs.2450 crores), fertilisers (Rs.4389 crores) and export promotion and market development (Rs.2742 crores). Details are given in Annexure I. Audit reviews on payment of subsidy for indigenous fertilizers production and on export promotion are featured in paragraphs 5.2 and 7.3 respectively.

The revenue expenditure has been growing faster than revenue receipts as may be seen from the table. (The interest receipts and interest payments included therein are given within brackets).

(Rupees in crores)

Year	Revenue receipts	Increase over the previous year	Revenue expenditure	Increase over the previous year	Revenue deficit
1986-87	40560(5253)	5727	48336 (9246)	7615	7776
1987-88	45405(5755)	4845	54542(11251)	6206	9137
1988-89	52971(6982)	7566	63485(14278)	8943	10514
1989-90	63277(7691)	10306	75191(17757)	11706	11914
1990-91	67288(7580)	4011	85849(21498)	10658	18561

While the revenue receipts went up by 66 per cent between 1986-87 and 1990-91, the revenue expenditure went by 78 per cent. The Long Term Fiscal Policy (LTFP) announced in December 1985 had indicated, as an objective, the attainment of surplus in the revenue budget from 1988-89 onwards. On the contrary, the revenue deficit has been increasing rapidly and registered an increase of 77 per cent between 1988-89 and 1990-91. The deficit in 1990-91 was more than double of that in 1987-88. The Economic Survey 1990-91 observed that prudent fiscal management demands that the revenue receipts should not only meet the revenue expenditure but also leave a surplus for financing the plan. The Ninth Finance

Commission had assessed the likely revenue deficit for 1990-91 at Rs.14500 crores. The Commission had observed that "with this order of revenue deficit in the Central Budget the entire system of budgeting and financial management of the Government would face a crisis situation during the Eighth Plan period". The actual deficit was Rs.18561 crores.

1.6 Capital expenditure and return thereon

The capital expenditure by Government in the last five years as a percentage of the GDP are given below.

(Rupees in crores)

Year	Capital expenditure	GDP at current prices	Capital expenditure as a percent of GDP
1986-87	10794	260442	4.14
1987-88	10523	294408	3.57
1988-89	11340	351724	3.22
1989-90	13400	395143	3.39
1990-91	13387	513612	2.61

Capital expenditure as a percentage of the Gross Domestic Product is declining.

The progressive capital expenditure on General Services, Social Services and Economic Services upto end of 1990-91 and, for comparison, corresponding figures a year ago and decade ago are given below from the Statements in Finance Accounts. The revenue expenditure on corresponding services and the corresponding revenue receipts (non-tax) from such services are also given below. The revenue receipts contain two elements which are not capable of separation in the accounts viz (a) service fees to recover a part of the revenue expenditure on the service (e.g. component of rent to cover maintenance of buildings) and (b) return on the progressive Capital outlay (e.g. return on Capital cost of building). But even a normal return of 6 to 11 per cent is not being derived by the Government on its progressive capital outlay unless half the receipts were to be viewed as allocable to return on the capital, leaving the other half as fees for revenue expenditure services of 7 to 8 times the fees. It will be necessary to evolve norms, activity-wise, in each Ministry/Department on how the receipts are to be allocated towards fees against revenue expenditure and return on Capital outlay using information in the detailed accounts. Further comments on the follow up on accounts under the heads of account concerning various Ministries and Departments are given in the chapters on the respective Ministries/Departments.

(Rupees in crores)

		1990-91	1989-90	1980-81
1.(a)	Total Progressive Capital Outlay as at the end of (Investment in Public Sector Undertakings, Corporations, etc.) as in Statement No.11	122016 (47195)	108647 (42445)	29833 (10883)
(b)	Total Revenue expenditure excluding interest payments and collection of taxes	80908	71873	18350
(c)	Total Revenue receipts (excluding Tax revenue and interest receipts) (component from PSUs)	23367 (774)	22818 (689)	5435 (276)
2.(a)	Progressive Capital outlay on General Services	31023	26050	5951
(i)	(Component on Defence)	(24027)	(19474)	(3712)
(ii)	(Component of Public Works)	(1311)	(1088)	285
2.(b)	Revenue expenditure on General Services (excluding interest and collection charges)	19026	17088	5726
(i)	(Component on Defence)	(11292)	(10556)	(3716)
(ii)	(Component on Public Works)	(155)	(157)	(21)

		1990-91	1989-90	1980-81
2.(c)	Revenue receipts from General Services	1780	1495	504
(i)	(Component on Defence)	(418)	(362)	(175)
(ii)	(Component from Public Works)	(34)	(24)	(8)
3.(a)	Progressive Capital Outlay on Social Services	3749	3408	1062
3.(b)	Revenue Expenditure on Social Services	3715	3351	877
3.(c)	Revenue Receipts from Social Services	370	311	180
4.(a)	Progressive Capital Outlay on Economic Services	87244	79188	22820
(i)	Component on Agriculture and allied activities	4443	4388	176
(ii)	Component on Rural Development, Special Areas, Irrigation & Flood Control	936	801	negligible
(iii)	Component on Energy	21207	18473	1773
(iv)	Component on Industry and Minerals	23715	22945	9356
(v)	Component on Transport	23852	21347	8431
	(Railways)	(17118)	(15486)	(6201)
(vi)	Component on Communications	4163	3950	633
	(Telecommunications)	(3817)	(3631)	
(vii)	Component on Science, Technology and Environment	1297	1163	-
(viii)	Component on General Economic Services	7631	6119	782
4.(b)	Revenue expenditure on Economic Services	34250	33231	6100
(i)	Component on Agriculture etc.	5536	4139	915
(ii)	Component on Rural Development etc.	496	2570	-
(iii)	Component on Energy	982	914	-
(iv)	Component on Industries and Minerals	5093	5682	591
(v)	Component on Transport	13225	12459	2964
	(Railways)	(12451)	(11041)	(2703)

		1990-91	1989-90	1980-81
(vi)	Component on Communications (Telecommunications)	4448 (3416)	3840 (2874)	910
(vii)	Component on Science, Technology & Environment	1128	1041	-
(viii)	Component on General Economic Services	3341	2586	568
(ix)	Grants in aid and Contributions (excluding share of excise duty)	13503	8892	2870
4.(c)	Revenue receipts from Economic Services (including dividends & profits)	18130	17919	3943
(i)	Component from Agriculture etc.	131	121	33
(ii)	Component from Rural Development etc.	5	5	-
(iii)	Component from Energy	754	590*	-
(iv)	Component from Industries and Minerals	167	151	76
(v)	Component from Transport (Railways)	12527 (12451)	11105 (11041)	(645) 284
(vi)	Component from Communications (Telecommunications)	4250 (3404)	3547 (2841)	(97)
(vii)	Component from Science, Technology & Environment	18	17	-
(viii)	Component from other General Economic Services	278	83	-
(ix)	Aid materials and equipment received	586	754	436

* (excluding Rs.2300 crores of lapsed deposit of Oil Coordination Committee)

1.7 Investments and Returns

The investments by Government in statutory corporations, Government companies, other Joint Stock companies, co-operative banks and societies, international bodies etc. stood at Rs.47194.59 crores on 31st March 1991 as against Rs.42444.88 crores on 31st March 1990 (reference Statement No.11 of Finance Accounts). No dividend was due on Rs.597.91 crores invested in the international bodies (interest is receivable) and on Rs.4588.87 crores invested in enterprises still under construction. The dividend received (not from all) on the balance investments as at the end of years 1986-87 to 1990-91 are given below alongside investment figures and percentage of return to investment.

(Rupees in crores)

Investments at the end of the year		1986-87	1987-88	1988-89	1989-90	1990-91
1.	Public Sector Undertakings & Statutory Corporations					
(i)	Total Investments	23925.79	26955.21	29582.88	33449.18	37134.66
(ii)	Dividend received	185.61	214.71	115.08	248.50	301.17
(iii)	Percentage of dividend	0.78	0.80	0.39	0.74	0.81
2.	Reserve Bank of India					
(i)	Total Investments	5.82	5.82	5.82	5.82	5.82
(ii)	Dividend received	210.00	210.04	210.11	210.13	210.12
(iii)	Percentage of dividend	3608.35	3608.93	3610.14	3610.48	3610
3.	Nationalised Banks					
(i)	Total Investments	937.00	1137.00	1351.23	2090.59	2861.46
(ii	Dividend received	34.84	45.65	0.62	55.47	50.70
(iii)	Percentage of dividend	3.72	4.01	0.05	2.65	1.77
4.	Life Insurance Corporation of India					
(i)	Total Investment	5.00	5.00	5.00	5.00	5.00
(ii)	Dividend received	29.18	39.46	48.03	59.82	76.18
(iii)	Percentage of dividend	583.60	25.01	25.07	31.33	25.00
5.	General Insurance Corporation					
(i)	Total Investment	64.50	64.50	64.50	64.50	107.50
(ii)	Dividend received	16.16	16.13	16.17	20.21	26.88
(iii)	Percentage of dividend	25.05	25.01	25.07	31.33	25.00
6.	Industrial Development Bank of India					
(i)	Total Investment	475.00	495.00	540.00	637.00	703.00
(ii)	Dividend received	NA	44.17	48.84	47.85	69.50
(iii)	Percentage of dividend	NA	8.92	9.04	7.51	9.90
7.	State Cooperative banks and other banks					
(i)	Total Investment	338.60	385.77	429.37	471.73	520.12
(ii)	Dividend received	7.00	5.00	6.00	7.00	8.00
(iii)	Percentage of dividend	2.07	1.23	1.40	1.50	0.19

Investments at the end of the year		1986-87	1987-88	1988-89	1989-90	1990-91
8.	Cooperative Societies					
(i)	Total Investment	624.71	667.38	672.65	662.42	670.06
(ii)	Dividend received	4.04	4.14	3.80	40.33	31.41
(iii)	Percentage of dividend	0.50	2.12	0.56	6.09	4.64
9.	Cooperative Credit Societies					
(i)	Total Investment	0.14	0.14	0.14	0.18	0.18
(ii)	Dividend received	NA	NA	NA	NA	NA
(iii)	Percentage of dividend	NA	NA	NA	NA	NA
10.	International Bodies					
	Total Investment	332.26	344.13	376.65	470.28	597.92
11.	Under Construction					
	Total Investment	4017.08	4404.07	4729.51	4588.17	4588.87
	Total Investment	30725.90	34464.02	37757.75	42444.88	47194.59
	(Total dividend)	486.83	579.30	448.65	689.41	774.03
	(Percentage of dividend)	1.58	1.68	1.19	1.63	1.64

NA: Information not available.

The return of around 0.81 per cent from 235 statutory corporations and Public Sector Undertakings accounting for substantial Government investment (Rs.37135 crores) has to be viewed against the borrowing rate of 11 per cent on loans taken by the Government during 1990-91. No dividend was received from 193 Public Sector Undertakings in which Rs.33517 crores stands invested. In the progressive total of Capital Outlay, the investments in public Sector and other Undertakings, included in Minor Heads 190 under all Capital Major Heads of expenditure amounted to only Rs.9413.11 crores as against the figures in Part I and Part II, Section II of Statement No.11 of Rs.37247 crores. The balance amounts must be transferred from other minor heads to minor head 190 in the progressive Capital outlay figures under the head 'Government Account' as pre-period adjustments to enable Finance Accounts to serve as an instrument for monitoring accountability of return from investments. Action needs to be taken accordingly by the Chief Accounting Authorities in Ministries and Departments who have to monitor returns from capital

Investments in PSUs etc. Similar action needs to be taken on investments in Cooperative Banks, Cooperative Societies and Cooperative Credit Societies included in progressive capital outlay in Capital expenditure heads and reflected in Statement No.11 of the Finance Accounts also.

The figures in Statement No.11 on investment in International Financial Institutions is incomplete and needs to be updated by reconciling it with expenditure on investment booked under Capital Major heads like 5466-Investment in International Financial Institutions. It is necessary that all Financial investments booked under the Capital Major heads are fully reflected in Statement No.11 to enable the Finance Accounts to help monitor accountability for returns to Government from all investments made outside the Government.

From the Regional Rural Banks (set up in 1975), wherein the investment was Rs.54 crores as on 31st March, 1991, no dividend has ever been received. The dividend from nationalised Banks was only Rs.50.70 crores against budget estimates of Rs.65 crores for 1990-91.

1.8 Government Commercial Departments and Undertakings

Railways, Posts and Telecommunications are the most important departments of the Government that are run commercially. There are also other Commercial departments of the Government such as Light houses and Lightships, Mints and Opium and alkaloid factories. They prepare profit and loss accounts and balance sheet and cost their production, charge depreciation, provide for renewals and replacements and create reserve funds out of their profits to make up for losses in future or to finance future expansions. Undertakings of the Government are declared to be commercial or non-commercial undertakings or trading schemes by the respective Ministries or Departments. In the Finance Accounts the Minor heads 201 to 300 are earmarked for recording accounts of departmentally run commercial undertakings.

In the Finance Accounts for 1990-91, the balances under the Reserve Funds created for Government Commercial Departments and Undertakings (and separately for Government Non-Commercial Departments and Undertakings), both interest bearing and non interest bearing Fund balances, at the end of 1990-91 and the previous two years are as given below:-

(Rupees in crores)

	Balance at the end of		
	1990-91	1989-90	1988-89
8115-Depreciation/Renewal Reserve Fund (Interest bearing)			
103-Depreciation Reserve Funds-Government Commercial Departments and Undertakings	346.52	321.65	298.82
104-Depreciation Reserve Fund-Government Non-Commercial Departments and Undertakings	0.28	0.28	0.28
8121-General and other Reserve Funds-			
101-General and other Reserve Funds of Government Commercial Departments/undertakings	29.37	22.48	20.62
8226-Depreciation/Renewal Reserve Funds-			
101-of Government Commercial Departments/undertakings	17.71	16.36	14.63
102-of Government Non-commercial Departments/undertakings	76.37	10.02	9.29
	470.25	370.79	343.64
8443-Civil Deposits- 115-Deposits received by Government Commercial Undertakings	4.98	5.20	3.88
0049-Interest Receipts- 03-103-Interest from Departmental Commercial Undertakings	164.24	131.14	110.35

The additions made to the reserve funds amounted to Rs.124.98 crores during 1990-91 while withdrawals were Rs.25.53 crores. The interest received from departmental Commercial undertakings amounted to Rs.164.24 crores during 1990-91. However, the Finance Accounts do not separately reflect the capital investment by the Government, (Ministry and Department-wise) in the Government Commercial and Non-Commercial Departments and undertakings (nor the returns from them). This needs to be done in the capital heads of account.

The undertakings are also not listed out in the Finance Accounts, anywhere. This needs to be done in statement No.11 of the Finance Accounts (separately for Commercial and Non-Commercial/undertakings), indicating also the undertakings which have made contributions to the Reserve Funds (for commercial and Non-commercial undertakings) and indicating other undertakings so declared by Ministries and Departments. The minor heads 201 to 300 do not seem to have been utilised to bring under them all such undertakings and many of them may be getting accounted for under other minor heads. The major and minor heads in which the capital investments are accounted for in statement No.10 giving progressive capital outlay need be mentioned in statement No.11 while listing each undertaking therein, as also the interest from them coming into head 0049, by book adjustment.

In respect of 38 Government Commercial Undertakings, the financial results made available to audit are summarised in Appendix I. They are by no means complete or upto date. It is necessary for each Ministry and Department to get audited Commercial accounts from their undertakings within 9 months of the close of the financial year to ensure that accounts are brought upto date and are presented for audit.

1.9 Loans and Advances

Details of loans advanced by the Union Government to State Governments, Union Territories, Government corporations, Non-Government Institutions, Local Funds, cultivators etc. during the last three years are given in Statements No.15 and 3 of the Finance Accounts. But in Statement No.15 the amount of interest recovered has not been aggregated loanwise and indicated against each minor head but only against the Major head. The information needs to be given minor headwise in Statement No.15 to improve the utility of the Statement to the Chief Accounting Authorities in the Ministries and Departments. They need to monitor why reasonable interest is not being realised against any minor head. In Statement No.15 it should also be clearly indicated that except for loans mentioned loaneewise in Statement No.3, repayments and interest have been received against all other loans covered by Statement No.15. The amount of loan outstanding must also be indicated in Statement No.3 alongside the amount of instalments overdue for repayment.

State Governments: The loans advanced to State and Union Territory Governments for developmental and non-developmental purposes during 1990-91 and the previous two years as per Statement No.15 of Finance Accounts are given below:-

(Rupees in crores)

	1990-91	1989-90	1988-89
Opening balance	64242	56287	49558
Amount advanced during the year	14522	11311	10046
Amount repaid during the year	4653	3356	3316
Closing Balance	74111	64242	56288
Net increase over the previous year's balance (percentage)	15	14	14
Interest received during the year	5174	4424	3770
(Percentage to opening balance)	8	7.9	7.6

Other bodies : The details of loans given to various other bodies, the broad purposes for which they were given and the repayments and interest received during 1990-91 and the earlier two years are given below:

(Rupees in crores)

		1990-91	1989-90	1988-89
1.	Opening Balance	35550	32606	29154
2.	Amounts advanced during the year	4468	5283	5078
3.	Amounts repaid during the year (pre-period adjustments)	1317 (+191)	2015 (+324)	1626
4.	Closing balance	38510	35550	32606
	(loan to PSUs and other undertakings from minor heads 190 included in above)	(22300)	(19011)	(16910)
	(interest from PSUs and other undertakings under head 0049-03-190)	(1782)	(2587)	(1866)
5.	Closing balance of loans for Miscellaneous General Services (interest received)	12 (Nil)	10 (Nil)	6 (Nil)
6.	Closing balance of loans for Social services	1155	1000	880
	(interest received)	(12)	(3)	(1)
7.	Closing balance of loans for Economic Services	36655	33939	31235
	(interest received)	(1267)	(1883)	(2104)
8.	Closing balance of loans to Government servants	633	547	448
	(interest received)	(6)	(5)	(14)
9.	Closing balance of Miscellaneous loans	55	54	37
	(interest received)	(12)	(0.41)	(NA)
10.	Total closing balance	38510	35350	32606
	(Total interest received) (Head 0049.03)	2406	3267	3211

NA: Not available

In Statement No.3 of Finance accounts it is indicated that the terms and conditions of loans aggregating to Rs.1382.18 crores advanced to Government owned companies/corporations, non-Government institutions, local funds etc. have not yet been settled, some even after many years of advancing the loans. The Chief Accounting Authorities in the Ministries and Departments would need to finalise them without delay.

At the end of 1990-91, the recovery of principal amounts of loan (Rs.7838.68 crores) and interest (Rs.8758.40 crores) totalling to Rs.16597.08 crores remained in arrears, as indicated in the said Statement No.3. The arrears had increased from Rs.7771.72 crores to Rs.16597.08 crores during the last three years. Action by the Chief Accounting Authorities in the Ministries and Departments is needed to effect the recoveries or amend the conditions of loan.

Loans to other countries: The details of loans given by Union Government to other countries during the last three years are given below:

(Rupees in crores)

	1990-91	1989-90	1988-89
Opening balance	1183	496	525
Amount advanced during the year	1719	776	82
Amount repaid during the year	799	89	111
Closing balance	2103	1183	496
(interest received under Head 0049-03-111)	(62)	(12)	(8)

The increase in loans given during 1989-90 and 1990-91 and increase in repayments in 1990-91 was mainly because of technical credits given to Government of erstwhile USSR to which exports were more from India than imports into India from erstwhile USSR.

1.10 Public Debt and other liabilities

The total liabilities of the Union Government have been increasing during the last five years as per figures given in the Finance Accounts and extracted below:-

(Rupees in crores)

At the end of	Internal Public Debt	External Public Debt *	Total Public Debt (2+3)	Other Debts and Deposits	Total Liabi-lities	Gross National Product at current prices	Percentage of total liabilities to (GNP)
1.	2.	3.	4.	5.	6.	7.	8.
1986-87	86312	20299	106611	59935	166546	258637	64.4
1987-88	98646	23223	121869	73692	195561	291789	67.0
1988-89	114498	25746	140244	89528	229772	349105	65.8
1989-90	133193	28343	161536	106657	268193	392524	68.3
1990-91	154004	31525	185529	129047	314576		

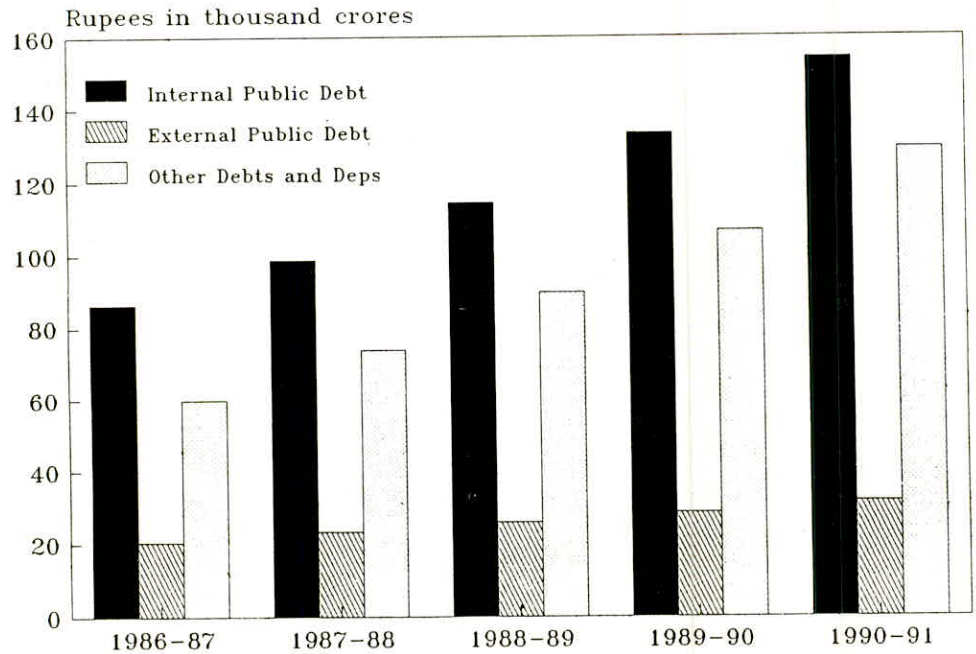
* (External Debt in the accounts has not been adjusted for exchange rate variation. Please see paragraph 12.3 of this Report)

Public Debt (Internal and External) increased by 74 per cent from Rs.106611 crores in 1986-87 to Rs.185529 crores at the end of 1990-91. Other Debts and Deposits with Government increased by 115 per cent from Rs.59935 crores to Rs.129047 crores during the same period.

The component of treasury bills in the Internal Debt (both short term bills with maturity of 91 or 182 days and treasury bills converted into long term securities) went up by Rs.12072.39 crores in 1990-91. The cumulative debt on treasury bills issued to RBI increased by 87 per cent from Rs.39626 crores at the end of 1986-87 to Rs.74031 crores by end 1990-91. Presently, they are being used to finance long term debt though they are intended to be temporary instruments for filling resource gap.

Under head 6001 the Rupee debt of Government owed to Foreign Institutions stood at Rs.6566.26 crores (under 6001-105) and to RBI at Rs.1101.43 crores (under 6001-107) on 31st March 1991. The

Public Debt and other Liabilities



rupees so credited under head 6001 come out of capital expenditure under head 5466 i.e. the rupees coming out of capital head 5066 get credited under 6001 (instead of under a Reserve Fund or deposit head) while at the same time money securities (IOU) are issued to International Financial Institutions and RBI to whom these rupees belong. There is need to reconcile the figures of rupee investments under head 5466 with figures under head 6001 in Part II Section II of Statement No.11 of Finance Accounts.

In Statement No.14 of the Finance Accounts against the minor heads under Internal Public Debt (Head 6001) the interest payments have not been recorded, though it is done so against the External Public Debt minor heads (totalling to Rs.1833.63 crores). Under Major head 2049 in Statement No.9 of the Finance Accounts, the total amount of interest paid on Internal public debt has been given (Rs.9814.11 crores). In Statements No.14 and 14-A against each minor head interest payments (totalling to Rs.9814.11 crores) also need to be given.

Under the head "8012-Special deposits and Accounts - 108 Special drawing rights at the IMF" in "Section I, Small Savings, Provident Fund etc. deposits" almost the same amount of monies paid through RBI to IMF as subscriptions, are also held as rupee deposits. The balance under head 8012-108, as on 31st March 1991 was Rs.1074.68 crores as against debt (on securities issued) to RBI of Rs.1101.43 crores under head 6001-107. The rupees under the head 8012-108 get converted into SDRs on repurchase of SDRs using rupees and back into rupees on repurchase of rupees using SDRs. During 1990-91 these operations amounted to around Rs.2700 crores of receipts and disbursements under the head 8012-108. The opening balance in the head in 1990-91 was Rs.1049 crores and the closing balance Rs.1075 crores. Both at the beginning and end of the year 1990-91 amount equal to almost the entire securities issued to RBI/IMF on SDRs stood as rupee deposits in the head 8012-108.

Separate from Rupee Securities issued for Rs.6566 crores to International Financial Institutions under head 6001-105, external debt is contracted in FE under head of account 6002. The closing balance was Rs.7335 crores of debt from IBRD and Rs.(-)442 crores of debt from IMF as on 31st March 1991. The minus balance arises from net writing off of the loss due to exchange variations in exchange rate so far. Write off is effected by transferring the loss by exchange booked under the head 6002 to head 2075 as per normal accounting procedure, by taking a vote of Parliament and closing the head 2075 to "Government Account".

Contingent liabilities: The guarantees given by Government on obligations contracted cr sums borrowed by others (including Railways) during the last five years were as follows:

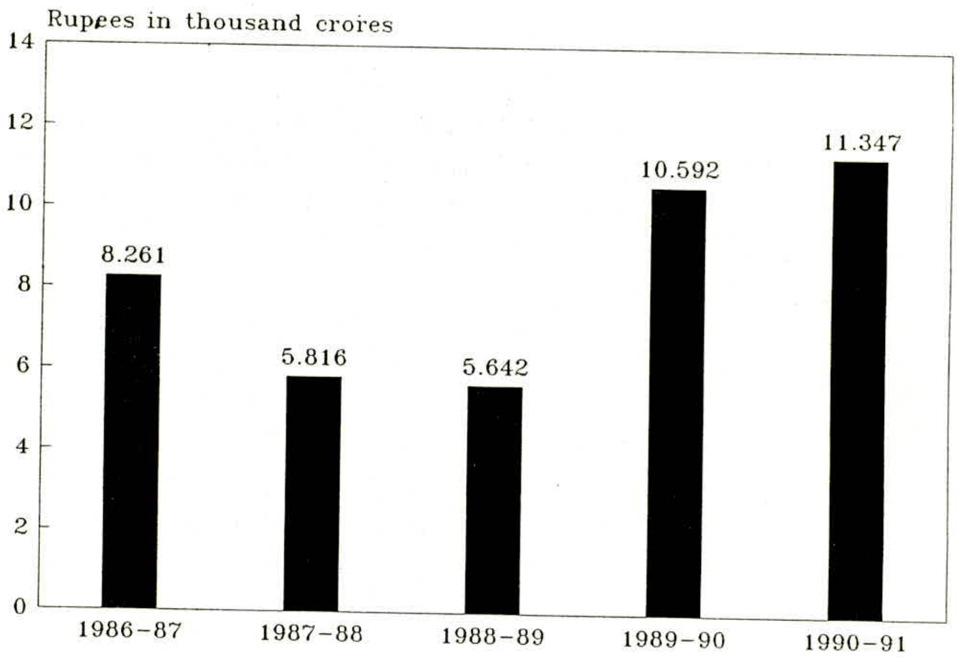
(Rupees in crores)

As on 31st March	Original guaranteed amount	Outstanding guaranteed
1987	32357.79	26645.94
1988	34014.17	27943.88
1989	40743.41	33240.41
1990	60916.79	54536.60
1991	49352.66	40394.46

In 1169 cases, Rs.433 lakhs were paid by Government as a result of invoking guarantees given under Credit Guarantee scheme for small scale industries, as reported in Finance Accounts (Statement No.4).

The outstanding amount of guarantees on external loans contracted by non Governmental bodies in India, from international financial institutions, foreign Governments etc. (included in External Assistance) and from foreign banks etc. (External Commercial Borrowings) are given below:

Overall Deficit



(Rupees in crores)

Year	Amount
1986-87	3338.99
1987-88	6780.53
1988-89	10138.88
1989-90	13478.23
1990-91	20964.50

These amounts are not adjusted for exchange rate variations. Please see paragraph 12.3 of this Report.

The public debt and other liabilities become significant in the context of financing the budgetary deficits in revenue and capital expenditure. The following concepts of deficit are prevalent:

(a) Overall deficit: The overall deficit in the expenditures and receipts of the Government is the amount by which the total expenditure (under revenue and all capital accounts) exceeds the total receipts (under revenue and all capital accounts) of the Government. In this computation all the capital receipts and expenditures including receipts and expenditure under the heads in Public Account are taken into account. But the changes in cash balances and Treasury bills (which are used to cover the deficit) are excluded.

The overall deficit during the year 1986-87 to 1990-91 was as under:

(Rupees in crores)

Year	Annual overall deficit
1986-87	8261
1987-88	5816
1988-89	5642
1989-90	10592
1990-91	11347

The overall deficit can be computed for shorter periods i.e. parts of a year also. In the first month of 1990-91 it was Rs.4469 crores i.e. by end April

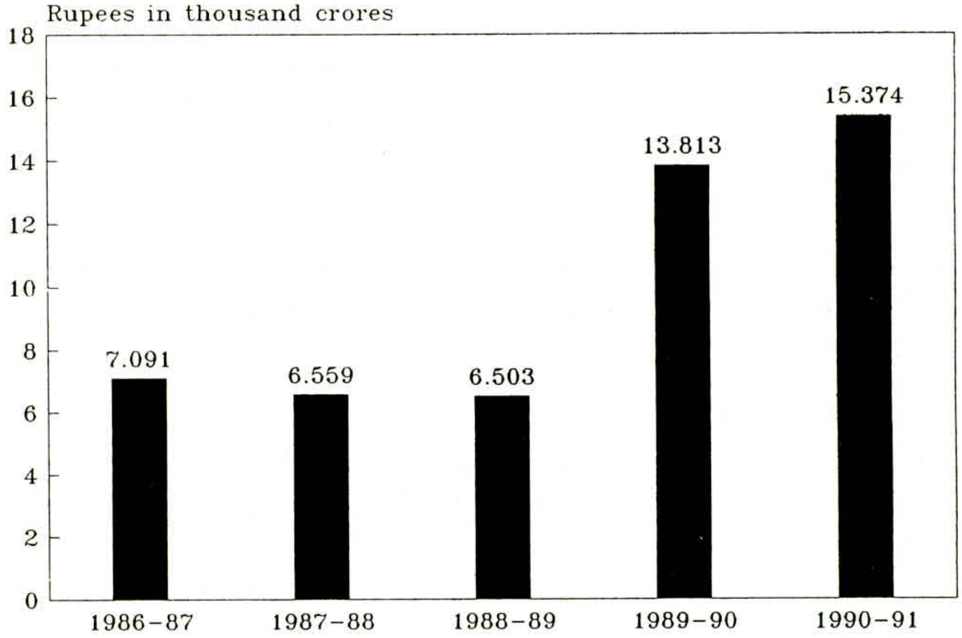
1990. It went up to Rs.14364 crores by end February 1991 and came down to Rs.11347 crores by end March 1991 i.e. for the year 1990-91 as a whole. The overall deficit for 1990-91 was estimated in the budget at only Rs.7206 crores and in the revised estimates for the year at Rs.10772 crores only.

The main reasons for increase in actual overall deficit by Rs.4140 crores over the budget estimates are given below:-

Net increase in disbursement of loans and advances	-	Rs.3134 crores
Increase in revenue expenditure	-	Rs.2779 crores
Shortfall in revenue receipts	-	Rs.2751 crores
	-	Rs.8664 crores
Decrease in capital expenditure	-	Rs. 778 crores
Increase in net public debt receipts	-	Rs. 377 crores
Increase in deposit receipts	-	Rs.3367 crores
	-	Rs.4522 crores
Net (main reasons)	-	Rs.4142 crores

The receipts into Public Account, helping to keep down the overall deficit, included Rs.1000 crores of deposits by Unit Trust of India. and Rs.400 crores by State Bank of India (including all of the monies received by sale of NRI bonds) which were not anticipated in the Budget Estimates. The NRI bonds were issued by the State Bank of India as the agent of the Central Government to raise foreign exchange resources and to reduce overall deficit by making deposits into Public Account. The State Bank of India was paid commission/service fee for raising the

Monetised Deficit



monies. All losses to the SBI, due to exchange rate variations were borne by the Central Government. In effect the monies received are Public Debt of Government, but legally not viewed so, as the monies have been deposited with the Government by the SBI, which issued the bonds to the NRI. Repayment by Government of the monies deposited by the SBI is not subject to vote of Parliament, being payments from Public Account.

(b) Monetised deficit: The Sukhamoy Chakravorty Committee (Report 1985) observed that the traditional budget deficit (overall deficit) does not reveal the full extent of the Government's reliance on Reserve Bank credit, since a sizeable part of new issues of government securities is taken up by the Reserve Bank in the absence of adequate response from the public and the financial institutions, including banks. According to the Report, "an unambiguous and economically meaningful measure of the money impact of fiscal operations is provided by the change in Reserve Bank credit to Government". Accordingly, the concept of monetised deficit (which is also in use) is defined as the increase in net RBI credit to Government. The growth in the monetised deficit at the end of the last five years is given below:

Year	Monetised deficit (Rupees in crores)
1986-87	7091
1987-88	6559
1988-89	6503
1989-90	13813
1990-91	15374

Source: Annual Report of the RBI for 1990-91 and Economic Survey 1990-91.

As would be seen, the monetised deficit was less than the overall deficit in the years 1986-89, but it exceeded the overall deficit in 1989-90 and 1990-91.

(c) Fiscal deficit: The concept of monetary or monetised deficit, though broader than the measure of overall deficit, is more suitable for monetary analysis. The overall budgetary deficit (i.e. overall deficit as explained above) reflects only a part of the resource gap that is financed by issuing treasury bills (partly converted into securities) and withdrawals from cash balances. It views the market borrowings (Public Debt) and increases in other liabilities such as small savings and provident funds (all of which add to the debt burden of the Government) as having filled up the balance resource gap. But the concept of gross fiscal deficit provides a measure of macro economic imbalance. It is defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants and aid received) on the assumption that capital expenditure of Government is to be financed from revenue surplus, ideally. It is, thus, an index of overall financial market disequilibrium caused by the fiscal (borrowing) operations of the Government. The concept was included in the budget documents, for the first time, in the budget presented for the year 1991-92. The growth of fiscal deficit over the past five years is given below:

(Rupees in crores)

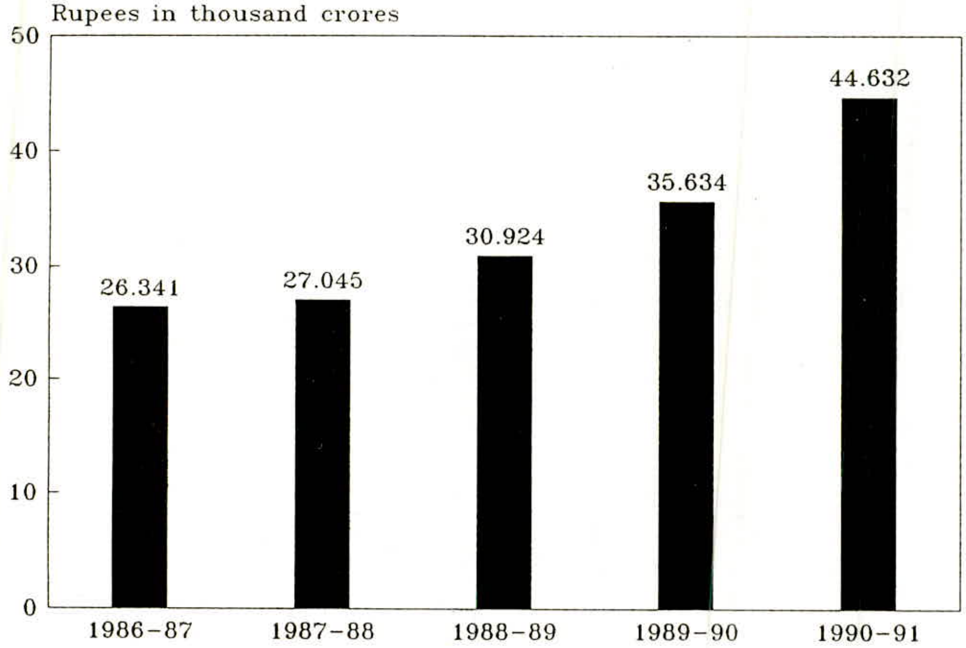
Year	Fiscal Deficit	GDP at Market prices	Fiscal deficit as percentage of GDP	Overall deficit as percentage of GDP
1986-87	26341	291974	9.02	2.83
1987-88	27045	332616	8.13	1.75
1988-89	30924	394992	7.83	1.43
1989-90	35634	442769	8.05	2.39
1990-91	44632	518500	6.61	2.19

Source for GDP at market prices: RBI Annual Report 1990-91.

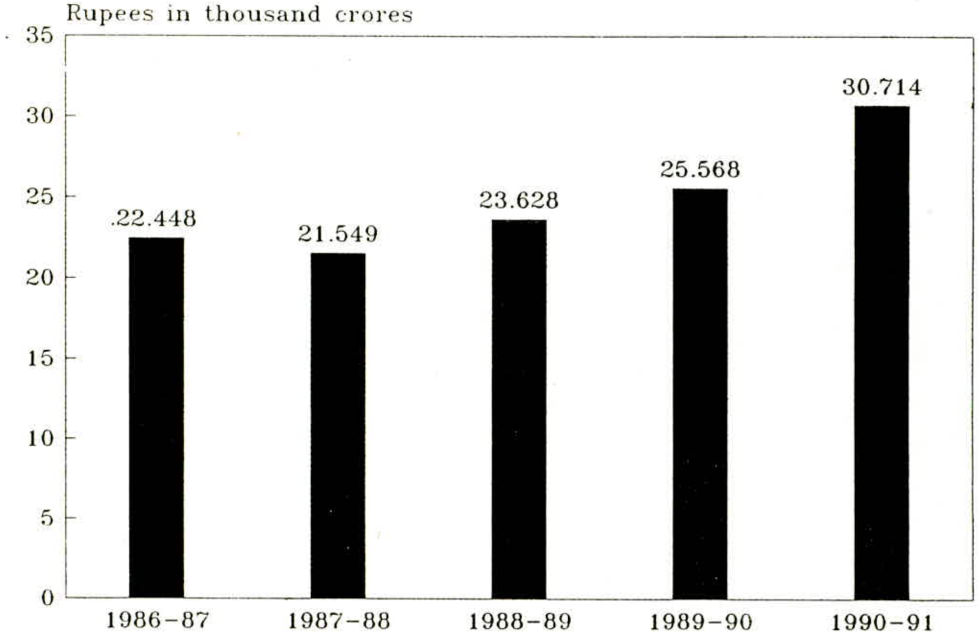
The fiscal deficit increased by 69 percent during the years 1986-87 to 1990-91. In 1990-91 the overall deficit of Rs.11346 crores was only 25 percent of the fiscal deficit, the balance being met by appropriating resources from the GDP, by regulating or attracting savings in the economy into Public account.

While highlighting priority areas of action, the Economic Advisory Council had observed. "The correction

Fiscal Deficit



Primary Deficit



of the fiscal imbalance is central to any viable development strategy for the short or medium term".

(d) Primary deficit: The fiscal deficit does not, however, reflect the Government's net indebtedness contracted during the year. The interest payments arise from past debts. Gross primary deficit, is therefore, a concept defined as gross fiscal deficit less net interest payments. The growth of primary deficit over the past five years is indicated below:-

Year	Primary deficit* (Rupees in crores)
1986-87	22448
1987-88	21549
1988-89	23628
1989-90	25568
1990-91	30714

* The payments on account of Treasury Bills and management of debt have also been deducted from the Gross Fiscal Deficit while computing the primary deficit.

The primary deficit indicates the extent to which fiscal actions in the year added to the indebtedness of the Government.

1.11 Old outstanding balances and adjustments to be made in the Finance Accounts

In the balances in the Finance Accounts which do not close to Government Account every year, but, where the balances are carried forward from year to year, the old unadjusted or misclassified amounts need to be adjusted on written back. If they cannot be adjusted or transferred to correct head, for want of details, action has to be taken to write them off, alongside removing the defects in the system leading to loss of details. This has to be done in addition to verification by Accounts Officers that details for all remaining items going into such balances are available in subsidiary accounts with nominated departmental officers who render certificate of having all such details. Yearwise break up of balances under Suspense and Remittance Heads, where there should be no old amounts, should also be obtained alongwith the certificates every year and they should be reflected in the Finance Accounts. Some of the obvious adjustments which need to be made in the Finance Accounts, in the various Ministries/Departments have been indicated in the following chapters of this Report dealing with the respective Ministries and Departments.

Annexure I
(Refers to paragraph 1.5)

Expenditure on Subsidies during 1986-87 to 1990-91

(Rupees in crores)

	1986-87	1987-88	1988-89	1989-90	1990-91
Food subsidy	1999.74	2000.00	2200.00	2476.00	2450.00
Subsidy on indigenous fertilizers	1700.00	2050.00	3000.00	3771.00	3729.73
Interest subsidy	322.77	311.26	419.83	435.79	349.10
Assistance for export promotion and market development	785.33	962.11	1385.80	2014.34	2741.53
Subsidy to Railways towards dividends relief etc.	143.90	173.56	207.40	232.60	283.35
Subsidy on imported fertilizers	197.12	113.84	200.70	771.10	659.33
Total	5148.86	5610.77	7413.73	9700.83	10213.04
Percentage growth over the previous year	10.91	8.97	32.13	30.85	5.28
Revenue Receipts (Tax and non-Tax)	40560	45405	52971	63277	67188
Percentage of subsidies to revenue receipts	12.69	12.36	14.00	15.33	15.20
Non-plan revenue expenditure	40120	44637	52370	63216	73035

Percentage of subsidies to non-plan revenue expenditure	12.83	12.57	14.16	15.35	13.98
GDP at factor cost at current prices	260442	294408	351724	395143	513612
Percentage of subsidies to GDP	1.97	1.91	2.11	2.46	1.99

CHAPTER II

Appropriation Accounts

2.1 Budget Demands and expenditure

The summary of Appropriation Accounts (Civil) i.e. expenditure during 1990-91 against approved demands (grants and appropriations) excluding grants for Posts, Telecommunications, Railways and Defence Services given in other reports) is given below:-

	Original grant/ appropr-iation	Supple-mentary	Total	Actual expendi-ture	Variation Saving (-) Excess (+)
	1.	2.	3.	4.	5.
					(Rupees in crores)
I. Revenue:					
Voted	39342.15	3787.02	43129.17	40870.24	-2258.93
Charged	34671.25	1158.54	35829.79	35468.47	-361.32
II.Capital:					
Voted	8417.71	242.34	8660.05	7491.80	-1168.25
Charged	29.34	3.36	32.70	21.11	-11.59
III.Public Debt					
Charged	119870.59	..	119870.59	81723.07	-38147.52
IV.Loans and Advances					
Voted	4628.54	1588.99	6217.53	6318.51	+100.98
Charged	12004.11	2746.35	14750.46	14475.95	-274.51
V.Other-Inter-State Settlement	..	..	..	* negligible	
Grand total	218963.69	9526.60	228490.29	186369.15	-42121.14

* A sum of Rs.10,000 was paid to Government of Andhra Pradesh under Inter-State Settlement for which there was no provision.

Note: In a demand the Grants are voted and Appropriations are charged

2.2 Results of Appropriation Audit

The overall saving was the net result of saving in 206 grants/appropriations and excess in 9 as shown below:-

	Savings		Excesses		Net Saving	
	Revenue	Capital	Revenue	Capital	Revenue	Capital
	(Rupees in crores)					
Voted	2260.24 (In 79 grants)	1588.38 (In 61 grants)	1.31 (In 3 grants)	521.11 (In 3 grants)	2258.93	1067.27
Charged Approp-riations	361.65 (In 41 approp-riations)	38433.98 (In 25 approp-riations)	0.33 (In 2 approp-riations)	0.36 (In one approp-riation)	361.32	38433.62

The supplementary grants and appropriations obtained during 1990-91 constituted 4.35 percent of the original grants and appropriations.

2.3 Excess over grant/appropriation

In the revenue section, there was total excess of Rs.131,17,708 in 3 grants and Rs.32,83,129 in 2 appropriations. Excesses in capital section amounted to Rs.521,10,74,782 in 3 grants and Rs.36,38,354 in one appropriation. These nine excesses detailed below require regularisation under Article 115 of the Constitution by seeking excess grants/appropriations from Parliament.

Excess

Sl. No.	Grant	Total grant or appropriation	Actual expenditure	Amount of excess (percentage of excess)	Main reasons
1.	2.	3.	4.	5.	6.
		Rs.	Rs.	Rs.	
Voted Grants					
Revenue					
1.	13 - Defence Pensions	1669,67,00,000	1669,78,51,872	11,51,872 (.007)	Drawing of pensionary benefits by more pensioners than anticipated and extension of eligibility of family pension to more categories of pensioners, leading to unforeseeable liability.
2.	93 - Lakshadweep	39,07,00,000	39,10,55,524	3,55,524 (0.09)	Not fully quantifiable payments on arrears of special pay, Dearness Allowance, bonus and cost of articles for school as also increase in cost of fuel, and transportation charges, unforeseen increase in cost of servicing and maintenance of helicopter.
3.	94 - Chandigarh	174,66,00,000	175,82,10,312	116,10,312 (0.66)	Unforeseen increase in payments to staff, cost of material, increase in the number of staff, payments to Electricity Board and leave salary contribution in respect of employees on deputation with Chandigarh Administration.

1.	2.	3.	4.	5.	6.
	Capital				
4.	7 - Department of Commerce	1166,03,00,000	1687,11,80,697	521,08,80,697 (44.7)	Unforeseeable increase in technical credits to Governments of erstwhile U.S.S.R. and Romania under Trade Agreements due to increase in exports from India and shortfall in imports into India.
5.	22- Ministry of Environment and Forests	655,00,000	655,68,488	68,488 (0.10)	Unforeseeable increase in payments for ongoing works.
6.	93 - Lakshadweep	12,46,00,000	12,47,25,597	1,25,597 (0.10)	Not fully quantifiable additional payments to Food Corporation of India towards cost of rice and sugar. Also unforeseen excess payment for mechanised and dump barges and steel boats for coastal shipping.
Charged Appropriations					
Revenue					
7.	13 - Defence Pensions	33,00,000	33,51,425	51,425 (1.56)	Payment in more cases of family pensions under awards made by Court.
8.	94 - Chandigarh	5,09,00,000	5,41,31,704	32,31,704 (6.35)	Unforeseen increase in payments to the employees of High Court on

1.	2.	3.	4.	5.	6.
					removal of anomalies by the Punjab Government, in fixing salaries.
Capital					
9.	94 - Chandigarh	1,00,00,000	1,36,38,354	36,38,354 (36.38)	Unforeseeable payment for acquisition of land, under a decree.

Though similar excess for similar reasons had occurred in the grants on "Defence Pensions" and "Chandigarh" during the years 1985-86 to 1989-90, in the grants of Department of Commerce during 1989-90; and in the grant for Lakshadweep during the years 1986-87 to 1988-89, the excesses in 1990-91 were again not foreseen nor necessary supplementary grants/appropriations taken.

2.4 Saving in grants/appropriations

In 14 cases, supplementary provisions of Rs.231.55 crores were obtained, in voted or charged portion of the Capital or Revenue Section, but the final saving in these cases exceeded 5 per cent of the total grant including supplementary provisions. Details are given in Appendix II. They do not include cases where only token supplementary provisions were obtained.

The entire provision in the Capital Section remained unutilised in 3 grants; savings exceeded 50 per cent of the provision in the Capital or Revenue Section in 10 grants and 20 per cent of the provision in the Capital or Revenue Section in 30 grants. Details of grants where savings exceeded 20 per cent and Rs.5 lakhs are given in Appendix III.

Out of the total savings of Rs.3848.62 crores under voted grants (6.63 per cent) and Rs.38795.63 crores under charged appropriations (22.76 per cent), savings in 41 grants and 4 appropriations accounted for Rs.3264.71 crores and Rs.38727.41 crores respectively (saving in each case not less than Rs.20 crores).

Some of the savings touching major schemes are given below:-

Sl. No.	Grant	Amount of Savings (percentage of savings)	Main reasons
1.	2.	3.	4.
		(Rupees in crores)	
	Voted Grants		
	Revenue		
1.	2 - Other Services of Department of Agriculture and Co-operation	126.79 (32.94)	Less release to State Governments, Non-release of assistance to National Dairy Development Board, Less procurement of raw materials by Delhi Milk Scheme, Less release to National Cooperation Development Corporation and Economy measures.
2.	4 - Department of Rural Development	159.73 (5.08)	Less release to Technology Mission on drinking water, Less subsidy under Integrated Rural Development Programme and less release for Draught Prone Areas Development Programme, Desert Development Programme, training in rural development programmes, sanitary services and rural roads in ravine areas and economy measures.

1.	2.	3.	4.
3.	5 - Department of Fertilizers	275.73 (4.86)	Non-approval of Land Reclamation and Development through Modern Agricultural Practices (LANDMAP) Project, non-availability of the aid from Government of Japan for Japanese Rainfed Farming Project, non-receipt of gift consignment from the foreign donor and lesser import of fertilizers owing to variation in exchange rate and constraints of foreign exchange.
4.	47 - Department of Education	65.05 (3.8)	Non-implementation of the schemes of (i) panchayat samities under Shiksha Karmi Project in Rajasthan (ii) establishment of rural universities and (iii) New Initiative in Elementary Education, discontinuance of programme of mass orientation of school teachers, less expenditure on Special Development Programmes on Border Areas, the States not taking up the total literacy campaigns, non-incurring of any expenditure on the Indian Institute of Technology, Assam and less release of grants to State Governments for Operation Blackboard due to less receipt of proposals.
	Capital		
5.	19 - Department of Coal	47.51 (4.8)	Less investment in Neyveli Lignite Corporation Ltd. for development of mines and release of less loans to Coal India Ltd. for payment of compensation claims for acquisition of coal bearing areas.

1.	2.	3.	4.
6.	20 - Department of Power	244.09 (9.43)	Non-release of Centre's share contribution in Sardar Sarovar Project owing to non-receipt of proposals from Madhya Pradesh Government, less investment in Badarpur Thermal Power Project owing to delay in delivery schedule and late receipt of equipments, non-investment in North Eastern Electric Power Corporation owing to non-placement of contracts for transmission lines and non-clearance of the revised project estimates, non-investment in Central Electricity Authority for establishment of State Load Despatching Centres and loans to Damodar Valley Corporation owing to non-clearance of the schemes, less investment in Nathpa Jhakri Power Corporation due to delay in award of works acquisition proceedings for land and other constraints relating to design etc., less investment in National Thermal Power Corporation owing to post budget decision to provide funds as loan for Kawas Project under back to back financing and less investment/release of loan due to economy measures.
7.	80 - Atomic Energy	172.49 (29.12)	Non-sanctioning/deferment of heavy water projects, postponement of procurement/delay in receipt of machinery and equipments, late receipt of financial sanction for some works, slow progress/postponement of certain works and projects, non-receipt/settlement of certain claims, delay in commissioning of the heavy water plants, reduction in requirement of supplies and fuel stock materials, non-filling up of vacant posts and economy measures.

1.	2.	3.	4.
8.	84 - Department of Space	25.31 (26.49)	Less expenditure on Cryogenics (Engine and Stage) due to deferment of turbine test facility, delay in approval of Geo-Synchronous Launch Vehicle (GSLV) Project and delay in finalisation of requirements/computers etc. of IRS Continuation Project and slippages in delivery schedules.
Charged Appropriations			
	Revenue		
9.	28 - Interest Payments	351.75 (1.61)	Lower sale of Treasury Bills, lesser deposits, less payment/adjustment of interest on internal and external loans owing to more withdrawals.
	Capital		
10.	29 - Transfers to State Governments	186.58 (1.3)	Release of less loans to State Governments following less collections in small savings and curtailment of central assistance.
11.	31 - Repayment of Debt	38147.52 (31.82)	Less discharge of Treasury Bills following lower investment; less encashment of securities and bonds and non-release of loans from Kuwait following Gulf crisis.
12.	78 - Ministry of Water Resources	41.56 (63.38)	Late receipt of proposals from State Governments for Central Plan loans for strategic flood proofing measures in Ganga flood basin States, anti-sea erosion work and Command Area Development Programme and economy measures.

Out of the saving of Rs.3848.62 crores under voted grants, Rs.3062.03 crores were surrendered of which 52 per cent (Rs.1993.29 crores) were surrendered on the last day of the financial year.

This indicated non optimal utilisation of available funds (by taking also supplementary grants against surrenders) well before the end of the year.

In 12 voted grants and 4 charged appropriations more amount was estimated for surrender than the final savings.

2.5 Recoveries in reduction of expenditure

The demands for grants are for the gross amount of expenditure i.e. inclusive of recoveries arising from use of stores etc. procured in the past or expenditure transferred to other departments or Ministries. While appropriation audit is done by comparing gross expenditure against gross amount of grant, the shortfall in recoveries indicates failure to use past assets or pass on expenditure.

In the revenue section against estimated recoveries for Rs.1984.79 crores, actual recoveries were only Rs.1555.38 crores. In the capital section against estimated recoveries for Rs.991.34 crores, actual recoveries were Rs.881.63 crores. Details of shortfalls in recoveries of 20 per cent or more compared to estimates and not less than Rs.5.00 crores are given in Appendix IV.

2.6 Injudicious re-appropriation

A grant or appropriation for charged expenditure is distributed by sub-heads or standard objects (called primary units) under which it shall be accounted. Re-appropriation of funds can take place between primary units of appropriation within a grant or appropriation before the close of financial year to which such grant or appropriation relates. Re-appropriation of funds should be made only when it is known or anticipated that the appropriation from the unit for which funds are to be transferred will not be utilised in full or that savings can be effected in the appropriation of the said unit.

Under 43 sub-heads in 22 grants and appropriations, re-appropriations amounting to Rs.147.26 crores were made though the original provision was adequate (whereby saving was more than the amount re-appropriated to that sub-head) or the original provision from which transfer was made was inadequate and resulted in excess under that sub-head. In all these cases the reappropriations were made on the last working day of the financial year.

2.7 Reserve Funds

In the Finance Accounts for 1990-91, the balances under the Reserve Funds (excluding Telecommunications and Railways) at the beginning and end of the year and the receipts into and withdrawals from the funds during the year are given as under:

(Rupees in crores)

Head of Account	Opening balance	Receipts	Withdrawals	Closing balance
1.	2.	3.	4.	5.
Reserve Funds not bearing interest excluding Railway Funds				
8224-Central Road Fund	21.01	9.74	9.06	21.69
8225-Roads and Bridges Fund	32.24	12.00	0.75	43.49
8226-Depreciation/Renewal Reserve Fund for Government Commercial and non-Commercial Undertakings	26.38	92.03	24.33	94.08
8229-Development & Welfare Funds				
Sugar Development Fund	433.71	165.15	102.24	496.62
Industrial Development Fund	77.49	..	3.79	73.70
Mines Welfare Fund	18.70	9.63	5.80	22.53

1.	2.	3.	4.	5.
National Bio-technological Core Fund	3.25	..	..	3.25
Customs and Central Excise Welfare Fund	12.44	0.53	0.16	12.81
Performance Award Fund	1.42	2.11	-0.01	3.54
Customs and Central Excise Special Fund for acquisition of Anti-smuggling equipments	0.70	2.64	0.57	2.77
Other Development and Welfare Fund	27.40	12.13	5.83	33.70
	575.11	192.19	118.38	648.92
8235-General and Other Reserve Fund				
for Government Commercial Departments/ Undertakings	145.98	228.60	197.62	176.96
General Insurance Fund	74.51	7.41	0.01	81.91
Other Funds (excluding Railway and Telecommunications Fund)	18.11	0.01	..	18.12
	238.60	236.02	197.63	276.99
Total non-Interest Bearing Funds	893.34	541.98	350.15	1085.17

1.	2.	3.	4.	5.
Reserve Funds bearing interest excluding Telecommunications & Railway Funds				
8115-Depreciation & Renewal Reserve Fund for Commercial, Non-Commercial Government Departments/Undertakings	321.94	26.06	1.20	346.80
8121-General & other Reserve Fund for Commercial Government Departments/ Undertakings	22.48	6.89	..	29.37
General Insurance Fund	0.02	..	..	0.02
General Reserve Fund Electricity	12.97	..	..	12.97
Total interest bearing Funds excluding Telecommunications and Railway Funds	357.41	32.95	1.20	389.16
Grand Total	1250.75	574.93	351.35	1474.33

In respect of some reserve funds created by different Ministries/Departments and deposits kept with Government by non-Government bodies, explanatory notes have been given in the Appropriation Accounts (Civil). Amounts deposited into and withdrawn from the Funds for use on a service are included in the grants or appropriations. The figures relating to 18 funds/ deposits for the year 1990-91 are given below:-

	Rupees in crores
Opening balance	248.78
Receipts	272.42
Payments	219.05
Closing balance	302.15

There were no transactions from/to into 'Civil Aviation Development Fund', 'Personal Injuries (Compensation Insurance) Fund 1965', 'Central Coal Mines Rescue Station Fund' and 'Personal Injuries (Compensation Insurance) Fund 1972'. The 'Depreciation Reserve Fund created for Government Medical Stores Depot' was also not operated.

The optimal utilisation of all Reserve Funds and deposits need to be looked into by the Chief Accounting Authorities in respective Ministries and Departments.

CHAPTER III

Departments of Agriculture and Cooperation
and
Agricultural Research and Education

3.1. Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Department (Grants Nos. 1 to 3) amounted to Rs.526.44 crores and Rs.2605.42 crores respectively. After adjusting the recoveries the amounts brought to account in Finance Accounts were Rs.526.37 crores and Rs.2600.29 crores respectively.

The progressive capital outlay, as at 31st March 1991, on crop husbandry, soil and water conservation, Animal husbandry, Dairy development fisheries and Cooperation is given below under respective capital major heads of account. The outlay should generate revenues and returns to Government. The revenue expenditure and revenue receipts in 1990-91 under the corresponding revenue heads of account are given alongside. The component of outlay invested in identifiable organisations or undertakings (whether declared commercial or not), Public Sector Undertakings and Cooperatives are given below within brackets. N.A. indicates information has not been made available in the accounts, though required to be given in some cases. The Chief Accounting Authority of the Department would need to take follow up action for getting wanting information in accounts and improving returns from capital outlays and investments. He may also need to drop from the progressive capital outlay the expenditures which are not correlatable to any assets in the register of assets, physical or financial and cannot also be truly entered in the register of assets so as to rectify omissions. Action has also to be taken to declare activities identifiable as "Departmental Undertakings" and those which should make profits as "Departmental Commercial Undertakings". All Public Sector and other Undertakings, cooperatives and

Departmental Commercial and non-Commercial Undertakings need to be listed in Statement No.11 of the Finance Accounts indicating the capital invested in them and the return realised from them.

(Rupees in crores)

Sl. No.	Major Head	Progressive Capital Outlay as at the end of			Revenue Expenditure 1990-91	Revenue Receipts 1990-91
		1990-91	1989-90	1988-89		
1.	2.	3.	4.	5.	6.	7.
1.	4401-Capital Outlay on Crop Husbandry	3104.72	3100.06	3090.94	796.30 (Head 2401)	7.93 (Head 0401)
	(4401-101-Farming Coop-eratives	(7.26)	(7.26)	(7.26)	Nil	N.A.
	(4401-104-Agricultural Farms)	(49.69)	(49.69)	(49.69)	(0.63) (Head-2401-104)	(0.10) (Head-0401-104)
	(National Seeds Corporation)	(19.44)	(17.44)	(14.88)		Nil
	(State Farms Corporation of India Ltd.)	(23.20)	(23.20)	(19.10)		Nil. Losses Rs.7.68 crores upto 30.6.87
2.	4402-Capital Outlay on Soil and Water Conservations	3.48	2.71	1.70	6.88 (Head-2402)	N.A.
3.	4403-Capital Outlay on Animal Husbandry	30.26	27.91	25.73	16.77 (Head-2403)	3.33 (Head-0403)
4.	4404-Capital Outlay on Dairy Development	20.71	19.29	17.98	106.94 (Head-2404)	90.96 (Head-0404)
	(4404-102-Dairy Development Projects)	(1.91)	(1.80)	(1.69)	(5.31) (Head-2404-102)	(3.37) (Head-0404-102)
	(4404-109 Delhi Milk Supply Scheme)	(116.29)	(115.00)	(113.81)	(98.15) (Head-2404-096)	(87.49) (Head-0404-103)

1.	2.	3.	4.	5.	6.	7.
	(4404-110-Milk Supply Scheme Chandigarh)	(0.23)	(0.23)	(0.23)	--	(N.A.)
	(National Dairy Development Board)	(1.00)	(1.00)	(1.00)		(Section 25, Charitable Company, no dividend)
	(Karnataka Dairy Development Corporation)	(2.99)	(2.99)	(2.99)		(NA)
	(Madhya Pradesh State Dairy Development Corporation)	(1.70))	(1.70)	(1.70)		(NA)
	(Rajasthan State Dairy Development Corporation)	(2.72)	(2.72)	(2.72)		(NA)
5.	4405-Capital Outlay on Fisheries	62.56	61.51	60.75	(20.61) (Head-2405)	(1.61) (Head-0405)
	(Central Fisheries Corporation)	(0.76)	(0.76)	(0.76)		(loss upto 31.3.78 Rs.2.10 crores-being wound up)
	(4405-101 Inland Fisheries)	(1.90)	(1.76)	(1.45)	(0.97) (Head-2405-101)	(NA)
	(4405-103-Marine Fisheries)	(47.26)	(46.94)	(46.57)	(14.58) (Head-2405-103)	(NA)
6.	4425-Capital Outlay on Cooperation	167.69	166.67	165.97	(17.45) (Head-2425)	(0.32) (Head-0425)
	(4425-107-Investment in Credit Cooperatives)	(89.10)	(89.10)	(89.08)	(0.18) (Head 2425-107)	(NA)
	(4425-108-Investment in other Cooperatives)	(78.67)	(78.08)	(77.51)	(5.03) (Head-2425-108)	(NA)
	(4425-200-Other Investments)	(0.88)	(0.45)	(0.35)	--	(NA)
7.	4435-Capital Outlay on other agricultural programmes	26.99	26.99	26.99	1509.02 (Head-2435)	3.18 (Head-0435)
	(Slaughter House Corporation)	(3.42)	(1.50)	(1.01)		NA
	(State Agro Industries Corporation)	(32.91)	(31.56)	(31.56)		0.07

1.	2.	3.	4.	5.	6.	7.
	(Karnataka Cashew Development Corporation)	(0.44)	(0.44)	(0.44)		NA
	(Kerala Oil Plantation India Ltd.)	(4.36)	(4.26)	(4.26)		NA
	(Oil Palm Project Andaman & Nicobar Islands)	(0.22)	(0.22)	(0.22)		NA
	(Krishak Bharati Cooperatives)	(328.00)	(328.00)	(344.00)		(19.68 for 89-90)
	(Marketing Societies)	(0.73)	(0.73)	(0.71)		negligible
	(National Consumer Cooperative Federation)	(7.28)	(5.28)	(4.28)		NA
	(Super Bazar Cooperatives)	(1.44)	(1.36)	(1.28)		(0.06 for 86-87)
	(Joint Farming Societies)	(0.02)	(0.02)	(0.02)		Negligible
	(Land Development Corporation Farms Service Society)	(4.37)	(4.37)	(4.37)		NA
	(Village Service Societies)	(0.07)	(0.07)	(0.11)		NA
	(Other Cooperative Societies)	(2.47)	(1.69)	(1.63)		NA
	(Consumer Societies)	(3.08)	(2.99)	(2.53)		NA
	(Cooperative Credit Societies)	(0.18)	(0.18)	(0.14)		NA
8.	4416-Investment in Agricultural Financial Institutions.	75.62	70.37	64.37	20.16 (Head 2416)	NA
	(4416-190-Investments in Public Sector and other Undertakings)	(71.25)	(66.00)	(60.00)	--	(NA)
9.	4415-Capital Outlay on Agricultural Research and Education	3.50	3.50	3.50	318.62 (Head-2415)	NA

The loans and advances given and outstanding as at 31st March 1991, for crop husbandry etc. are also given below, as indicated in statement No.15 of the Finance Accounts. The components of loan given to identifiable organisation or undertaking are given below within brackets. NA indicates that information has not been made available in the accounts though required to be given. The interest recovered will need to be given in the statement against loans under each minor head separately, in future, in addition to the interest on loans under the major head. Against some of the loans very little or no recovery has been made in the last three years and interest recovered is also relatively meagre. In statement No.3 of Finance Accounts, Ministry/Departmentwise and loaneewise, some of the outstanding loans and interest are indicated; but information is not complete. Also the amounts of loans outstanding and amounts of instalments overdue for recovery, both need to be given in the statement, in future. The Chief Accounting Authority in the department will need to take follow up action for getting wanting information and effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loaneewise details given in statement No.3, all the Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

(Rupees in crores

Sl. No.	Head of Account	Amount of loan outstanding as on 31.3.91	Loan Recoveries during			Interest recovered during		
			90-91	89-90	88-89	90-91	89-90	88-89
1.	2.	3.	4.	5.	6.	7.	8.	9.
1.	6401-Loans for Cooperative Husbandry	15.92	1.51	0.95	0.45	0.70	0.22	0.09
	(6401-104-Loan to Agricultural Farms)	(1.46)	(nil)	(-)0.21	(nil)	NA	NA	NA
	(6401-195-Loans to farming Cooperatives)	(0.17)	(nil)	(nil)	(nil)	NA	NA	NA
2.	6402-Loans for Soil and Water Conservation	1.23	0.01	0.01	0.01	Nil	NA	NA
3.	6403-Loans for Animal Husbandry	1.34	(0.03)	0.01	Negligible	0.01	0.01	NA

1.	2.	3.	4.	5.	6.	7.	8.	9.
4.	6404-Loans for Dairy Development	303.72	0.61	(nil)	(nil)	11.52	6.13	3.46
	(6404-102-Dairy Development Projects)	(198.32)	(Nil)	(nil)	(nil)	NA	NA	NA
	(6404-109-Milk Supply Scheme)	(0.01)	(Nil)	(Nil)	(Nil)	NA	NA	NA
	(6404-190-Loans to Public Sector & other Undertakings)	(3.18)	(Nil)	(Nil)	(Nil)	NA	NA	NA
5.	6405-Loans to Fisheries	114.34	0.05	0.35	0.21	Nil	0.02	Nil
	(6405-190-Loans to Fisheries Cooperatives)	(0.01)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
6.	6416-Loans to Agricultural Financial Institutions-	1733.55	196.83	147.38	99.62	126.84	Nil	Nil
	140-Loans to Public Sector and other Undertakings							
7.	6425-Loan for Cooperatives	368.53	43.62	18.67	39.68	52.19	1.09	38.83
	(6425-107-Loan to credit cooperative)	(116.93)	(16.97)	(18.53)	(17.46)	(NA)	(NA)	(NA)
	(6425-108-Loan to other cooperatives)	(166.01)	(26.65)	(0.14)	(22.22)	(NA)	(NA)	(NA)
	(6425-190-Loans to Public Sector and other Undertakings)	(Nil)	(Nil)	(Nil)	(Nil)	(NA)	(NA)	(NA)
	(6425-195-Loan to Consumer Cooperatives)	(85.70)	(Nil)	(0.01)	(Nil)	(NA)	(NA)	(NA)
	(6435-Loans for Agricultural Marketing & Quality Control	0.91	Nil	(Nil)	(Nil)	Nil	Nil	Nil

3.2 Adjustments to be made in Finance Accounts

In the balances at the end of 1990-91 which are reflected in the Finance Accounts the adjustment or review of the balances under the following heads of account need to be made by the Chief Accounting Authority in the Ministry/Department as indicated in the remarks column.

(Rupees in thousands)

Sl. No.	Heads of Account	Balance as at the end of				Remarks
		1990-91	1989-90	1988-89	1987-88	
1.	2.	3.	4.	5.	6.	7.
1.	6401-Loans for crop Husbandry 105-Manures and Fertilisers	(-)15,34	79,44	79,55	86,20	Recovery of 1,39,78 in 1990-91 as repayment of loans in excess of the loan amounts outstanding under these head indicates misclassifications or mistakes in book keeping, which needs rectification by write back of excess credit to another head or full debit for loans given being brought within head in rectification of past mistakes.
2.	6401-Loans for crop Husbandry 800-Other loans	(-)17,02	(-)5,08,73	(-)505,81	(-)4,93,98	There cannot be a minus balance under this head. While progress has been made in writing back amount of Rs.4,91,24 in the accounts for 1990-91, the balance misclassified amount of Rs.17,02 also needs to be written back.
3.	6405-Loans for fisheries 190-Loans to Public Sector and other Undertakings	(-)1	(-)41,60	(-)21,29	Nil	There cannot be a minus balance under this head. If for the small amount which could not be written back in (1990-91) while writing back Rs.41,59 no details are available, the credit needs to be transferred to revenue.
4.	6425-Loans for cooperation 797-Transfer to and from Reserve Fund and Deposit Account	(-)11,97	(-)11,97	(-)11,97	(-)11,97	There cannot be a minus balance under this head. If excess was drawn from deposit account of loanee to settle the loan, the excess needs to be written back to deposit account. If no claim is pending from loanee and no details are available the credit needs to be lapsed to revenue.

1.	2.	3.	4.	5.	6.	7.
5.	8229-Development and Welfare Funds. 103-Development Fund for Agricultural purposes	6 (Cr.)	6 (Cr.)	6 (Cr.)	6 (Cr.)	The reasons for no movement in the fund for years and reason for not lapsing balance to Revenue needs to be looked into.

3.3 National Watershed Development Programme for Rainfed Areas

3.3.1 Introduction

The National Watershed* Development Programme (NWDP) for Rainfed Areas was launched in 1986-87 as a Centrally Sponsored Scheme by the Ministry of Agriculture (Department of Agriculture and Cooperation) (hereafter referred to as the Ministry). The Programme was expected to stablise agricultural production in rainfed areas. In the on-going Schemes for development of dryland agriculture viz (a) Propagation of Water Conservation/Harvesting Technology for Dryland Farming Areas, (b) Popularisation of Seed-cum-Fertiliser Drill, (c) Growing of Improved Crop Varieties, (d) Application of Fertilisers, there were similar components or objectives as in NWDP and they were merged with the NWDP. The NWDP was aimed at integrated development of dryland and rainfed agricultural areas taking the watershed as the unit for planning.

The Programme was ultimately to cover 51 million hectares of un-irrigated arable land in the country, by and large, with annual rainfall ranging from 500 mm to 1125 mm. In the years 1986-90, in 16 States, 2.32 lakh hectares of land falling in 99 districts where generally less than 30 *per cent* of areas were under irrigation were to be covered annually. Pilot Projects on water conservation or harvesting technology had been in operation in 15 States.

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* Watershed is a geo-hydrological area of land that drains at a common point. It evolves in rainfed areas by the action of rainfall on land and comprises of arable lands, non-arable lands and natural drainage courses.

From the Eighth Plan (1990-91), all the National Economic Service Blocks in all the 25 States and 7 Union Territories with less than 30 *per cent* of cultivated area under assured irrigation, without any limit (higher or lower) of average annual rainfall, were made eligible for inclusion under the Programme.

For the Programme, the average size of a watershed was taken as 1000 hectares. But from February 1987, it was taken to vary from 500 hectares to 1,500 hectares in hilly districts and 1,000 hectares to 2,500 hectares in non-hilly districts. The watershed area to be covered in a district was not to exceed 10,000 hectares. From 1990-91 the range of watersheds from 500 hectares to 5,000 hectares was taken up under the Programme, with a limit of 25,000 hectares of watersheds in a district.

In the watershed, the objective of the Programme was to:

- conserve and upgrade crop lands and waste lands;
- develop and demonstrate location specific technologies for soil and moisture conservation under different climatic conditions;
- augment and sustain production of food, fodder, fuel, fibre, etc. by diversified and mixed farming and production of plant and livestock to meet the needs of human and livestock population;
- promote production of oilseeds and pulses;
- conserve the resources of land, water and vegetation and environment and preserve ecological balance; and
- generate rural employment through rainfed farming and agro-based allied activities like sericulture, bee-keeping, processing of agro and dairy products, etc.

3.3.2 *Scope of Audit*

The implementation of the Programme was reviewed in audit, in the Ministry, in selected watersheds in fourteen States, in selected Directorates of Agriculture of the State Governments and Land Development Corporations between January 1991 and September 1991. The findings are given below:

3.3.3 *Organisation*

The Programme was implemented through the State Agriculture Departments. Overall policy formulation, allocation of funds and monitoring was done in the Ministry. Watershed projects submitted by State Governments were approved by the Ministry through a Central Sanctioning Committee under the Chairmanship of Secretary (Department of Agriculture and Cooperation) with Adviser (Agriculture) Planning Commission, Agriculture Commissioner, Financial Adviser, Joint Secretary (SC and LRC), Deputy Director General (SAE), Indian Council of Agricultural Research (ICAR) as members and Joint Commissioner Projects as Member Secretary. Joint Inspection Teams were to be constituted at the Central level with the representative of the Ministry, Department of Rural Development, Planning Commission and ICAR to undertake field visits and periodical reviews and evaluation of the progress in different States.

At the State level, a Committee was constituted with Agriculture Commissioner or Secretary (Agriculture) as Chairman for execution of projects. For selecting watershed a Scientific Consortium comprising representatives from the Directorates of Agriculture and Horticulture, Agriculture Universities, ICAR Research Centres/Projects was set up in each State for examination of economic feasibility and contents of development plans and to undertake the preparation of scientific field manuals and the course content for training courses and provide research support.

At the Watershed, a Development Team comprising officials from Departments of Soil Conservation, Horticulture, Agriculture, Animal Husbandry, Extension, etc. and a scientist from the Research Organisation identified to provide technical support to the Programme and one or two progressive farmers of the area, was to be constituted for overseeing the execution of the watershed works.

3.3.4 Highlights

- **The Programme was launched in 16 States in the year 1986-87 for stablising agricultural production in rainfed areas by conserving and upgrading crop lands and waste lands. The expenditure has grown from Rs.5.28 crores in 1986-87 to Rs.31.12 crores in 1989-90 and Rs.32.49 crores in 1990-91 and it could well go upto Rs.168.98 crores in 1991-92 (budgetted) (Paras 3.3.5.(i) and 3.3.7).**

- **The allocation of funds at field level was to be worked out by reference to works needed on each land and what benefits would accrue from that land by execution of that work. But, the emphasis, in practice appeared to be on spending the allocated funds on land works in a watershed without reference to the minimum requirement of funds for the benefits to accrue from each unit of arable land (Para 3.3.7).**

- **The Programme was launched after merging similar on-going schemes for development of dryland agriculture but the activities concerning development of non-arable lands of watershed were made dependent on funds from many other overlapping on-going schemes instead of diverting funds through the Programme for overall and speedy integrated development of watershed areas. This led to non-coordinated efforts in achieving overall development of watershed areas. Funds from other on-going schemes for activities on non-arable lands in the watersheds did not flow and downgraded the** separate programme for watershed development (Paras 3.3.1, 3.3.6 (v) and 3.3.7).

- Funds amounting to Rs.3.31 crores were diverted to activities not covered under the Programme (Para 3.3.5 (ii).

- Disproportionately large amount of expenditure (30 per cent or more of the total expenditure) were incurred during the month of March in several States (Para 3.3.5(iii)(a).

- Rs.11.31 crores were drawn and kept outside the Government account to avoid lapse of grants (Para 3.3.5(iii)(b).

- Rs.10.06 crores advanced to various executing agencies were treated as final expenditure in several States (Para 3.3.5(iii)(c). Non-adjustment of advances and non-receipt of utilisation certificates for amounts totalling Rs.69.84 lakhs given to various executing agencies were noticed (Para 3.3.5(iii)(d).

- Avoidable extra expenditure of Rs.5.01 crores was incurred in various States. Rs.98.38 lakhs released to the State Government of Bihar by the Central Government during the years 1986-91 were not utilised (Para 3.3.5(iv).

- Infructuous expenditure of Rs.1.67 crores was noticed in various States (Para 3.3.5(v).

- The run-off of rainwater was not measured before and after the land and moisture management works were executed for planning water requirement for crop in several States. The measurements were an important part of the works (Para 3.3.6(i).

- The crop improvement expenditure was to be incurred only in areas covered by land and moisture management works with a view to realise the additional yield potential from the land. In Andhra Pradesh, Gujarat and Karnataka crop improvement expenditure was incurred on 80428 hectares, 6780 hectares and 30340 hectares of lands, respectively, which were not covered by land and moisture management works. The expenditure on such works in Karnataka amounted to Rs.87.71 lakhs. In several States excessive or in-adequate supply of seeds, fertilizers, pesticides, misappropriation of pesticides, non-furnishing of account for consumption of fertilizers, issue of life expired pesticides, etc. were noticed (Para 3.3.6(ii).

- On demonstration of crop improvement, adaptive trials for crop suitability and demonstration of tools and modern mechanical appliances, the planning was not detailed enough nor did it associate appropriate scientific agencies for change of practices and education of farmers. The shortcomings in the organisation of demonstration included non-holding of demonstration, inadequate coverage, non-analysis of cost to benefit, non-checking of yields before and after the holding of demonstrations, incurring of expenditure higher or lower than the prescribed ceiling, misreporting of physical progress, purchase of seeds at higher rate from private sources, etc. (Para 3.3.6 (iii) (iv) (v) (vi) and (vii).

- The State Level Sanctioning Committees in several States did not meet regularly to oversee implementation and correct approaches at lower levels. Central Joint Inspection Teams did not visit sites in various States for periodical reviews and revaluation of the progress made under the Programme. The Watershed Development Teams at grass root level were not even formed in Assam, Maharashtra, Orissa, Punjab, Rajasthan and Tamil Nadu for execution of work. Effective monitoring of the Programme was lacking at the Central, State and Watershed levels. The basis for monitoring was not the benefit derived from

the land but expenditure incurred from allocations (Para 3.3.6(vii).

- **Project Manual on organisation, planning, job descriptions for implementation, operating procedures, technical specifications, organisation, etc. was not prepared in several States (Para 3.3.7).**

- **The plan for training of staff and farmers was not detailed enough nor need based in several States (Para 3.3.6(viii)**

- **No attempt at conducting evaluation to ascertain impact of the Programme on the economic development, increase in agricultural production and overall development of watershed areas was made in several States (Para 3.3.7).**

3.3.5 Funds and Expenditure

(i) The Programme was a Centrally Sponsored Scheme. The expenditure from 1986-87 to 1989-90 was shared on 50:50 basis between the Central Government and the participating 16 State Governments except for conducting training courses, seminars, study tours at regional and national levels and preparation of scientific manuals, publicity materials, audio-visual aids for training and monitoring staff requirement at the Central level for which the Central Government met the full cost. The grants were given to the States or the agencies identified for implementing certain components in the States. The State Governments were to ensure 50 *per cent* of funds from their own resources. It was decided in December 1990 that during 1990-91 expenditure on the Programme; would be met by the Central Government with 75 *per cent* as grant-in-aid and 25 *per cent* as loan to the State Governments. The grants-in-aid were released in two half yearly instalments based on the statement of demands received from the State Governments for expenditure in the post-Kharif and post-Rabi seasons. The Ministry maintained details of amounts released and expenditure only in respect of the Central share and not of the share of State Governments.

The funds released and the expenditure incurred in the 16 States during the years 1986-87 to 1989-90 as intimated by the Ministry and the State Governments were as under:

Year	Central Government's releases to States	*Total releases by Centre and States	Expenditure out of Central releases	**Total expenditure by States
1.	2.	3.	4.	5.
			(Rs. in crores)	
1986-87	13.25	22.23	2.79	5.28
1987-88	6.03	19.34	10.79	21.81
1988-89	16.26	28.69	14.53	28.29
1989-90	15.94	29.31	15.59	31.12
1990-91	NA	56.39	NA	32.49#
Total	51.48	155.96	43.70	118.99

* Excluding releases by State Governments of Himachal Pradesh, Maharashtra, Rajasthan and West Bengal

** Excluding Himachal Pradesh.

\# Including expenditure upto November 1990 and December 1990 in Madhya Pradesh and Maharashtra respectively.

State-wise details are given in the Appendices V and VI. Figures in columns 2 and 4 above and Appendix V were obtained from Ministry and those in columns 3 and 5 and Appendix VI from State Governments. Shortcomings noticed in States in spending the funds are given below:

Andhra Pradesh: The releases by Centre and its utilisation reported by Centre and by State did not agree.

Bihar: The State Government did not release its share nor spend moneys received from Centre on the Programme.

Karnataka: Requirement of Rs.35.61 crores for expenditure on 47 watersheds was worked out but only Rs.24.37 crores of funds were released under the Programme.

Madhya Pradesh: Out of Rs.359.70 lakhs released during the years 1986-87 to 1989-90, for the implementation of the Programme, only Rs.245.36 lakhs were spent. No budget provision/release of fund was made by the State Government during 1986-87 and 1987-88 even though Central Government released Rs.58.10 lakhs.

Maharashtra: Only 39.5 *per cent* of funds released by Government of India was utilised upto end of December 1990.

West Bengal: Out of Rs.39.50 lakhs provided under the Programme during 1986-90, only Rs.13.80 lakhs were spent.

(ii) Diversion of funds:

Expenditure of Rs.3.31 crores incurred in the States were on schemes, activities and purposes other than the NWDP though booked under it. The details are given in Appendix III.

(iii) Rush of expenditure, unspent moneys shown in accounts as finally spent on Programme and non-adjustment of advances

(a) In Assam, Gujarat, Haryana, Kerala, Punjab and West Bengal, 30 *per cent* or more of the expenditure incurred during the years was expended during the month of March and in some States it was as high as 80 to 100 *per cent* (details in Appendix VIII).

(b) In order to avoid lapse of grants, Rs.11.31 crores were drawn and kept outside the Government account in the form of demand draft, Deposit at Call in banks, etc. (details in Appendix IX).

(c) Advances amounting to Rs.10.06 crores were made to various executing agencies and were lying unspent with them but were shown as finally expended in the accounts (details in Appendix X).

(d) Adjustment of advances were not made or certificates of utilisation were not received for amounts totalling Rs.69.84 lakhs given to various executing agencies (details in Appendix XI).

(iv) Avoidable extra expenditure

The following expenditures allowed under the Programme were avoidable extra expenditure:

Andhra Pradesh: In seven districts Rs.59.97 lakhs paid during March 1989 to the Andhra Pradesh State Seeds Development Corporation towards cost of seeds of groundnut, blackgram, redgram, greengram, moong, castor and maize supplied during Kharif 1987 were procured under other schemes. But the amount was debited to NWDP wrongly (Rs.59.97 lakhs).

Bihar: Rs.47.40 lakhs released by the Government of India during the years 1985-86 to 1989-90 to the State Government under NWDP remained unutilised. During 1990-91, Government of India released a further sum of Rs.50.98 lakhs which also remained unutilised (February 1991) and the Central expenditure was avoidable.

Gujarat: During 1989-90, based on the actual work done and expenditure incurred, the admissible central assistance was Rs.197.05 lakhs. But an amount of Rs.245.22 lakhs was paid as central assistance based on projected expenditure instead of actual expenditure for crop management for Kharif 1990 over 8616 hectares. Cost of rejected seeds amounting to Rs.1.88 lakhs was not credited back to the NWDP.

In 21 watersheds in Baroda, Junagadh, Rajkot and Surendranagar districts, expenditure incurred in 1988-89 and 1990-91 on seeds, fertilizers, pesticides and implements amounting to Rs.17.21 lakhs and Rs.24.73 lakhs respectively was wrongly shown as incurred on soil conservation works and grants were claimed on it. In addition, Rs.13.98 lakhs being 33.33 *per cent* of it was claimed as establishment charges for the year 1988-89 and 1990-91. In all excess payment of Rs.55.92 lakhs was made to implementing agency.

The executing agency claimed administrative expenditure at 33.33 *per cent* (instead of at 12.5 *per cent* in Seventh Plan) on the projected expenditure for purchase of seeds and fertilizers. During 1990-91, against admissible expenditure of Rs.229.56 lakhs for Central assistance, an amount of Rs.468.05 lakhs was paid which included Rs.117 lakhs towards administrative expenditure at 33.33 *per cent* instead of Rs.35.11 lakhs at 10 *per cent*.

(v) Infructuous expenditure

Instances of infructuous expenditure under the Programme which came to notice are given below:

Andhra Pradesh: Of the 93 watersheds taken up for development in 1990-91, 31 watersheds were abandoned from 1991-92 after incurring expenditure of Rs.148.48 lakhs because selection of watersheds was not carefully done.

Gujarat: 243 watershed were selected in 17 districts in January 1991. But in February 1991 the Government of India decided that there should be one watershed per Taluka and the number of watershed to be taken up was reduced to 168. Infructuous expenditure of Rs.18.10 lakhs was incurred on soil conservation works and other activities in the 35 abandoned watersheds in 10 districts.

3.3.6 Performance

(i) Land and Moisture Management

In taking up land development works designed to conserve soil and moisture, preference was to be given to areas where soil survey had been done, and soil conservation programmes and survey maps were available. Preference was also to be given to areas where soil conservation works like bunding had already been done. The cost per hectare on soil and moisture conservation works was not to exceed Rs.1000.

The run-off of rainwater was to be checked before and after the works to ensure benefit from the works and for planning water requirement for a crop. But such measurements were not done in Andhra Pradesh in 46 watersheds (in Adilabad, Anantapur, Chittoor, Mahaboobnagar, Prakasam, Ranga Reddy, Warangal and West Godavari districts), Orissa, Rajasthan (in watersheds of Bhungra, Kalsada, Khansurjapur, Madhogarh-Rampura, Pipalkhunt and Siyakho) and in Tamil Nadu.

The scheme has a provision in the guidelines for examining cost benefit expected to be derived from expenditure on any piece of land in any watershed. But the extent to which such analysis was ascertained before release of funds by the Centre is not known. Evaluation subsequently on achievements of benefits as per any estimate done at field level also does not appear to have been done. The farmer had little say on how he would like to increase his yield with the money which the Development Team decided to spend on his land.

Following shortcomings noticed in the land works of the Programme bear out the conclusion:

Andhra Pradesh: In 64 out of 93 watersheds the limit of 5000 hectares fixed from 1990-91 was exceeded. The limit of 25000 hectares was exceeded in 15 out of 20 districts. No recovery from the farmers was envisaged in respect of public outlay invested under this component. But the Commissioner of Agriculture issued order to treat 75 *per cent* of the expenditure as loan given to the farmers (who had little say on the manner of use of money) for recovery in 15 instalments with interest, as was done under other Soil Conservation Works Programme. During the years 1986-87 to 1989-90, the amount of loan recoverable from farmers worked out to Rs.3.88 crores in respect of land management works carried out on 75937 hectares at a cost of Rs.5.18 crores. The achievement fell short of the target as indicated below:

Year	Target	Land Management Works (In hectares)	Achievement
1986-87	30000		7891
1987-88	32000		20190
1988-89	27000		20000
1989-90	27000		27856
	116000		75937

Gujarat: On the average the eight watersheds selected were over 2500 hectares each. The area of watersheds also exceeded the limit of 10000 hectares per district in Gujarat (Banaskantha and Junagadh districts). In 9 watersheds the limit of 5000 hectares from 1990-91 was exceeded and the limit of 25000 hectares was exceeded in 6 districts.

The share of land holdings of small and marginal farmers in 16 watersheds was less than the prescribed requirement of 25 *per cent*. Against target of 86176 hectares only 59 *per cent* was covered upto March 1991.

Haryana: Against the limit of Rs.1000 per hectare on the average in the State, Rs.222.36 lakhs were spent on development of 16,470 hectares of land i.e. excess of Rs.57.66 lakhs. An amount of Rs.5.09 lakhs was drawn in Narnaul in March 1987 for disbursement to labourers engaged on water harvesting embankment works. Account of disbursement was, however, not made available to Audit.

Karnataka: 45 watersheds in Karnataka were over 3000 hectares. In 13 districts area of watersheds exceeded 10000 hectares. The arable area was less than the prescribed 50 *per cent* or more (between 34 and 46 *per cent*) in 5 watersheds. There were discrepancies between the figures of arable area developed as reported by the District Officers, Kolar, Belgaum and Tumkur and the Directorate of Agriculture. In two watersheds in Kolar and Tumkur districts, the total arable area reported to have been developed was wrong as it exceeded the total arable area available for development. The share of small and marginal farmers was less than the prescribed 25 *per cent* in 3 watersheds (between 10 and 18 *per cent* in Ilkalahalla, Kallabhavi and Gudageri).

Kerala: Land development works were reported to have been done on 550 hectares, 1200 hectares and 900 hectares during the years 1987-88, 1988-89 and 1989-90 respectively. Verification revealed that coverage was nil in 1987-88, 15.63 hectares in 1988-89 and 11.83 hectares in 1989-90. The watersheds were selected without ascertaining the moisture availability.

Madhya Pradesh: The arable area was less than the prescribed 50 *per cent* or more i.e. 44 *per cent* in Umarthana watershed.

Maharashtra: The area of 10 watersheds in five districts (Ahmednagar, Akola, Dhule, Osmanabad and Satara) in Maharashtra, ranged between 120 hectares and 457 hectares only, but in the aggregate, the area covered in each district exceeded 10000 hectares. Further, 20 watersheds in each district covering area exceeding 10,000 hectares were taken up.

In Bhopegaon and Darekd watersheds in Maharashtra the irrigated area was 42 *per cent* (only less than 30 *per cent* qualify) and annual rainfall was 1247 mm (not between 500 mm and 1125 mm prescribed). The Sub-Divisional Soil Conservation Officer stated that the selection was made on the basis of the demand from farmers.

The arable area was less than the prescribed 50 *per cent* or more (between 26 and 49 *per cent*) in 24 watersheds. Almost all expenditure was on this component. In Patewadi watershed (Ahmednagar district) land levelling was done on only 330 hectares of arable area but was reported as done on 593.38 hectares.

Superintending Agricultural Officer, Pune fixed (March 1990) the catchment area for each 'Nala Bund' at 40 to 500 hectares. The number of 'Nala Bunds' constructed (990) exceeded the number so fixed (518) leading to sub-optimal catchment area in each 'Bund'.

Name of district (Number of watershed)	Geographical area of watershed	Number of 'Nala Bunds' constructed	Number of 'Nala Bunds' required at the minimum range of 40 hectares of catchment area per 'Nala Bund'	Number of Nala Bunds' constructed in excess
		(In hectares)		
1. Satara (12 watersheds)	9988	503	248	255
2. Solapur (2 watersheds)	2005	72	51	21
3. Ahmednagar (7 watersheds)	5932	280	149	31
4. Sangli (4 watersheds)	2803	135	70	65
	20728	990	518	472

Taking an average cost of Rs.0.30 lakh per 'Nala Bund' (based on 383 'Nala Bunds' constructed at a cost of Rs.118.01 lakhs during 1989-90 in the State as a whole), the excess expenditure on 472 'Nala Bunds' would work out to Rs.141.60 lakhs in the above four districts.

In nine watersheds in Ahmednagar district and one watershed in Solapur district against the ceiling cost of Rs.2500 per hectare, the average expenditure per hectare on land and moisture management works, crop demonstration and contingency staff ranged between Rs.2700 and Rs.4320 leading to avoidable excess expenditure of Rs.55.36 lakhs.

Name of watershed	Area under cultivation	Total expenditure (Land management, crop demonstration and contingency staff)	Cost per hectare	Total excess expenditure (over Rs.2500 per hectare)
	(Hectares)	(Rs. in lakhs)	(Rs.)	(Rs.in lakhs)
1. Pimpalgaon Cowda	539	22.09	4099	8.62
2. Gundegaon	811	25.30	3119	5.02
3. Kapurwadi	856	23.24	2714	1.83
4. Panoli	672	18.15	2700	1.34
5. Wambori	655	20.77	3170	4.39
6. Nandur Khandermal	321	13.91	4320	5.84
7. Ghargaon	713	20.97	2941	3.14
8. Washire	458	19.15	4180	7.69
9. Karodi	699	20.35	2911	2.87
10. Islampur	841	35.64	4238	14.62
				55.36

In six watersheds of Nashik district, 'Khus' plantation done in 216 hectares at a cost of Rs.0.34 lakh were removed by the farmers indicating failure of the Development Team at watershed level to involve the farmers in the objective of increasing yield before expending money on the 'Khus' plantation.

In Ajnale, Devadi, Islampur, Karkamb, Shetpal and Wadegaon watersheds of Solapur district, On-Farm-Dryland development costing Rs.8.44 lakhs was done on 264.42 hectares of non-arable land belonging to 39 big farmers. The cost per hectare worked out to Rs.3191 against the ceiling of Rs.2000 per hectare. Avoidable extra expenditure was Rs.3.15 lakhs. The extra expenditure of Rs.3.15 lakhs was not recovered from the big farmers, though required to be done under the Programme.

The share of land holding of small and marginal farmers was less than the prescribed 25 *per cent* in 4 watersheds (between 9 *per cent* and 12 *per cent* in four watersheds of Sangli district).

Punjab: Almost all expenditure was incurred on this component and crop improvement.

Rajasthan: Land use for agriculture was distinguished under three types of use at the watershed level. They were primary use (for productive and viable crop husbandry), secondary use (for silviculture, forestry and as pasture land) and tertiary use (for fishing, tourism and conservation as reserve forest areas). In Bhungra, Kalsada, Khansurjapur, Madhogarh-Rampura, Pipalkhunt and Siyakho watersheds only lands capable of primary use were considered for formulation of projects to qualify for financial assistance. The District Soil Conservation Officers in Beawar and Ajmer kept down the per hectare assistances to within the ceiling of Rs.1000 and other than primary use were not considered. The Assistant Director (SC), Banswara prepared projects for primary use as will give more stress to enhancing crop production. Only contour bunds and terrace bunds were proposed and graded bunds, grassing of waterways, providing farm ponds and percolation tanks, interbunds treatment (formation of dead furrows and key line on contours), land smoothening, retention/tatti type terraces, wind breaks, vegetative barriers and border plantation, were not proposed at all.

Though watersheds were not to be located in blocks where there was a major irrigation project, Bhungro and Nogama watersheds of Ghatol and Bagidora blocks were selected and works were executed there under NWDP, despite the blocks being on the command area of Mahi Irrigation Project.

The arable area was less than the prescribed 50 *per cent* or more (between 37 and 43 *per cent*) in Bhungra, Durgawas and Ghatod watersheds. 10 watersheds were over 2600 hectares each. In Ajmer, Banswara and Dungarpur districts, area of watersheds exceeded 10000 hectares. In a number of watersheds, soil conservation works were reportedly done over more area than arable area available in the watersheds (during the years 1986-87 to 1990-91) indicating wrong reporting.

Name of watershed	Total arable area	Area covered under soil conservation	Excess area covered or mis-reporting
	(In hectares)		
Madhogarh Rampura	3633	3720	87
Nogama	1813	1849	36
Pipalkhunt	1152	1163	11
Ghatod	2473	3217	744
Baroli	1340	1421	81

Contour bunding works were to be done only in fields having slopes exceeding certain gradient in light and heavy soils but contour bunding works were un-necessarily executed at a cost of Rs.12.87 lakhs in watersheds in Alwar and Ajmer districts on land with lesser gradients. The Development Team at watershed level had no accountability for the expenditure in relation to benefits to be derived by the farmers.

Uttar Pradesh: Expenditure of Rs.775.58 lakhs was incurred on land development works done on 64,647 hectares of arable land in the State during the years 1988-91; but within the ceiling of Rs.1000 per hectare on the average, the cost of works should not have exceeded Rs.646.47 lakhs.

Out of 21,167 hectares of non-arable land, only on 9,661 hectares works of silvi pasture, tree farming, pastures and soil conservation works were carried out during the years 1988-91 at a cost of Rs.241.04 lakhs. Only seven *per cent* of non-arable land on which such works were carried out were brought under cultivation. Moisture conservation by adopting improved agronomic practices was effected on 35,965 hectares at a cost of Rs.628.89 lakhs and each drop of rain water was claimed to have been conserved *in situ*. In Baberu, Chirgaon, Hamirpur, and Mauranipur I and II units of Uttar Pradesh, ponds were to be constructed on 2702 hectares for collecting rain water during 1988-91 but no ponds had been constructed apparently due to non-availability of funds or giving them lower priority for applying funds.

West Bengal: 'Re-excavation of tanks' and 'construction of water conveyance channels' were targetted to cover 43 hectares (1986-90) and 135 hectares (1986-89) but only 13 hectares and 61 hectares respectively were achieved. The shortfall in achievement was reportedly due to late receipt of funds.

(ii) Crop Improvement Component

The crop improvement component in the Programme was the most important objective and was aimed at increasing productivity and production from drylands. Expenditure on seed, fertilizer and plant protection pesticides was to be about Rs.600 per hectare though for maize and groundnut it could go up upto Rs.1000 per hectare.

The Development Team at watershed level had no accountability for the benefits arising or failing to arise from the expenditure on this component but only on expenditure as per guidelines. Little was done to induce farmers to make soil moisture measurements and draw up appropriate crop plan based on the works done on their land.

The following shortcomings noticed in the crop improvement component of the Programme bear out the conclusion:

The crop improvement programme was to be implemented only in areas covered by land and moisture management works with a view to realise the additional yield potential of land covered by the works. However, in Andhra Pradesh crop improvement programme was carried out during the years 1987-88 to 1989-90 on 80428 hectares of land not covered by the land management works. Similarly, in Gujarat the programme was carried out on 8586 hectares in nine districts in Kharif 1988 at a cost of Rs.62 lakhs though land management works were not completed over 5994 hectares. In Rabi 1988 season crop demonstration was carried out at a cost of Rs.8.10 lakhs over 786 hectares in eight districts where land development works had not been implemented. In Karnataka, 41314 seed and fertilizer kits (cost:Rs.119.44 lakhs) were purchased and distributed to the farmers in 41314 hectares of land during Kharif 1987 though only 10974 hectares of land were covered by land management works. Seed and fertilizer input kits were allotted to farmers in Adurnala watershed over 3189 hectares though arable land was only 1535 hectares in that watershed. The surplus kits were given to farmers whose lands fell outside the watersheds. The purchase of 30340 kits (value: Rs.87.71 lakhs) was thus, irregular and avoidable.

The following further shortcomings noticed in the crop improvement component of the Programme are given below:

Andhra Pradesh: Rs.291.40 lakhs was expended on supply of inputs in 20 districts to cover 32000 hectares. But recovery at ten *per cent* of cost of inputs from the beneficiaries was ordered though not required to be effected under the Programme. However, in eight Sub-Divisions no recovery was effected saying that inputs for Kharif 1990 had already been issued as subsidy before receipt of instructions.

The target for area to be covered and achievements on 'crop improvement' during the years 1986-87 to 1989-90 were as under:

Year	Crop improvement	
	Target	Achievement
	(hectares)	
1986-87	--	--
1987-88	32000	30258
1988-89	92000	49980
1989-90	64700	76127
Total	188700	156365

In ten watersheds inputs like seeds, fertilizers and pesticides were supplied only to an extent of 30.91 *per cent*, 48.5 *per cent* and 5.77 *per cent* respectively of the quantity prescribed. Fertilizers and pesticides were not supplied for horticulture in the Sub-Divisions of Adilabad and Prakasam Divisions and in the Sub-Divisions of Tirupati and Madanpalle in Chittoor Division during 1990-91.

Data on moisture availability or moisture stress periods, needed to plan improved cropping were not collected. Equipment to measure moisture index of the soil had not been procured.

Haryana: An Agriculture Inspector misappropriated 337.50 litres of Endosulphon, 117 litres of Melathion and 84.48 quintals of urea (costing Rs.0.50 lakh) during 1988-89 and the deliquent official was charge-sheeted in November 1990. Further developments on the case were awaited (July 1991).

Maharashtra: Little or no expenditure was incurred on supply of seedling or grass seeds or slips.

Punjab: Account for consumption of 6424 bags of fertilizers valuing Rs.5.07 lakhs purchased from Punjab State Co-operative Supply and Marketing Federation Limited during 1986-87 and 1987-88 were not made available to audit.

Rajasthan: Out of 9254 hectares and 11,032 hectares on which crop improvement was reportedly done during the years 1987-88 and 1990-91 respectively, 4630 hectares and 2660 hectares pertained to un-identified watersheds.

In Bhungra, Kalsada, Khansurjapur, Madhogarh-Rampura and Pipalkhunt watersheds, supplies of seeds, fertilizers and plant protection chemicals were made by the supplying agencies in excess or inadequately in the years 1987-88 to 1990-91 as shown below:

Input	Quantity short supplied	Quantity supplied in excess
	(In kgs.)	
Seeds	24602	7171
Fertilizers	134796	47778
Plant Protection Chemicals	22181	5048

Use of BHC (Plant Protection Chemical) for termite control in soil was not considered necessary (April 1990) in Ajmer district but 90677 Kgs. of BHC valuing Rs.2.31 lakhs were distributed to land owners there. In Banswara district 706 litres of Monocrotophos pesticide was purchased for Rs.1.59 lakhs. 300 litres valuing Rs.0.65 lakh purchased in 1987-88 became life expired on 30th November 1987 but 275 litres of life expired pesticide was issued between December 1987 and August 1988.

Uttar Pradesh: In Atarra, Baberu, Banda, Chirgaon, Hamirpur and Mauranipur I and II agricultural inputs were supplied to the cultivators over 23,344 hectares at a cost of Rs.653 to Rs.1045 per hectare during 1988-91. This was against the prescribed limit of Rs.600 per hectare resulting in an extra expenditure of Rs.46.85 lakhs.

Arable area of 64647 hectares was developed through various soil and moisture management practices at a cost of Rs.775.88 lakhs during 1988-91.

(iii) Block Demonstration

Block demonstrations for emphasising the benefits to be derived by improved cropping, inter-cropping and double cropping were to be organised and their dependance on rainfall and soil type was to be conveyed by demonstrations conducted in the fields of the farmers. The size of the block taken up for demonstration was to be atleast 50 hectares in micro-watersheds and was to cover at least 33.3 *per cent* of the area of the watershed. The research scientists were to be fully involved in the demonstrations.

The perception on benefits from demonstrations were apparently varying widely in farmers, executing agency,monitoring agencies and framers of scheme. Apparently the farmers had no say in the nature and extent of demonstration. The executing agency had no accountability for the benefits from organising demonstrations. This was a shortcoming in the scheme.

The following shortcomings in organising block demonstrations noticed in audit bear out the conclusion:

Andhra Pradesh: No block demonstration was organised during 1986-87 and 1987-88. Out of the total area of 2.50 lakh hectares in 80 watersheds, demonstrations were organised to benefit farmers in an area of 0.03 lakh hectares only. Even if its need was stressed by framers of scheme, the need for the demonstration was apparently not felt by the executing agency in the field.

Assam: In a project area of 4000 hectares only 8.78 *per cent* was covered by the demonstrations arranged, but without involving scientists.

Gujarat: Seeds and fertilizer, costing Rs.335.98 lakhs were used for demonstration during Kharif and Rabi 1988, Kharif 1989 and Kharif 1990 in 60 watersheds. Analysis of the cost to benefit of the demonstration was not done by checking yields before and after. The executing agency stated that checking of yield was done wherever possible but data was not collected as guidelines issued by the Government of India did not require it. The reply indicates that management by issue of guidelines was not suited to the culture of the executing agency which had no stake in increasing yields by scientific data collection.

The expenditure per hectare on hybrid cotton (Rs.1098) and groundnut (Rs.2237) crop improvement was far higher than the prescribed ceiling of Rs.600 and Rs.1000 respectively. The expenditure incurred on cotton and groundnut was averaged with that on crops like 'Bajra' and 'Jowar'(which had lower cost ceiling). This resulted in excess expenditure of

Rs.103.91 lakhs. The executing agency stated that seeds and fertilizers for crop demonstration projects were supplied as per guidelines received from Gujarat Agriculture University, indicating that either ceilings had not been devised realistically by the framers of the scheme or had been too liberally allowed by the Agriculture University. It is not known if the farmers or executing agency had sought additional funds on justifiable grounds.

Following achievements on 'Crop Demonstration' and 'Fodder Production' were reported wrongly by executing agency:

Year	Crop demonstration		Year	Fodder Production	
	Area actually covered	Area reported		Area actually covered	Area reported
		(In hectares)			
1987-88	Nil	12500	1988-89	Nil	12000
1989-90	11380	19996			
1990-91	8616	NIL			

Haryana: During the year 1987-88, crop demonstration on 2190 hectares of land was done at a cost of Rs.8.21 lakhs. The average expenditure per hectare worked out to only Rs.375 against Rs.600 to Rs.1000 estimated for effective demonstrations.

Karnataka: In Adurnala, Kanakagirinala, Chapurahalli and Chikkahonnavaly watersheds in Raichur, Kolar and Tumkur districts, the area covered by block demonstrations was misreported as the total reported area exceeded the total arable area of the watersheds by 3091 hectares. The expenditure on the excess area reported amounted to Rs.12.76 lakhs.

Kerala: 10659 Kgs. of groundnut seeds costing Rs.1.33 lakhs at the rate of Rs.12.50 per Kg. were purchased from three private persons in March 1990 without testing seeds and also without ascertaining if they were recommended by the Operational Research Project, Ozhalapathy. Also seeds were purchased at Rs.8.40 per

Kg. from the Cooperative Societies in the same month indicating that purchases from private persons was at a higher rate of Rs.12.50 per Kg. resulting in extra expenditure of Rs.0.44 lakh. It was stated that this was done to avoid lapse of funds and also due to non-availability of more seeds from Co-operative Societies. However, no records were available to show that the Co-operative Society was approached before the purchase was made from private parties.

Maharashtra: In four watershed of Ahmednagar district a sum of Rs.3.30 lakhs was spent on crop demonstrations over 730 hectares which was in excess of the total cultivable area in the watersheds.

In ten watersheds in Solapur district there were 1804 small farmers, 856 marginal farmers and 521 big farmers. The crop demonstrations reportedly covered 1556 small farmers, 894 marginal farmers and 3099 big farmers indicating that 248 small farmers were left out while big farmers benefitted by demonstration more than once.

In Vikhale watershed (Satara district), cost of demonstration conducted over 510 hectares worked out to only Rs.388 per hectare which was less than Rs.600 per hectare given in guidelines because of non-provision of seeds for crop demonstration over 330 hectares. Effective demonstration was only over 180 hectares though reported as 510.

Orissa: In Kerandinala watershed crop demonstration for Soyabean crop was conducted during Kharif 1988-89 at a cost of Rs.0.90 lakh over an area of 75 hectares but it was a failure because of acidic condition of land. Avoidable extra expenditure of Rs.6.00 lakhs was incurred on demonstrations conducted during the years 1988-89 to 1990-91 because of non-adherence to cost norms prescribed.

Punjab: No record of demonstrations was maintained. During the years 1986-87 to 1988-89, fertilizers valuing Rs.8.77 lakhs purchased and distributed to the farmers were treated as demonstration component of Programme.

Rajasthan: Block demonstrations were not arranged in any of the watersheds in any of the years 1986-87 to 1990-91. Inputs supplied to farmers were treated as demonstrations under the Programme.

Tamil Nadu: The results achieved through 124 demonstrations organised at a cost of Rs.25.60 lakhs in Bargur, Kedamangalam, Mathur (Central, North and South) watersheds in Dharmapuri district, during the years 1989-91, were not analysed. Productivity data was not collected.

Uttar Pradesh: Of the one third of arable area to be covered by demonstrations, 55 *per cent* was covered. In seven units test-checked, there was no record to show that research scientists were involved in arranging demonstrations.

West Bengal: No record showing results of demonstration conducted over 68.51 hectares (expenditure: Rs.0.49 lakh) during 1986-90 was maintained. Cropping data was not recorded reportedly because field level staff were not available.

(iv) Adaptive Trials

Adaptive Trials (AT) were designed to establish suitable cropping pattern and farming practices appropriate to soil and moisture content so as to get economic yields. This was the component of the Programme where the benefits of Agricultural Research science would pass on best to the farmers but was the worst implementated component. The following shortcomings noticed in conducting of adaptive trials as a research and training component of the Programme bear out the conclusion.

Andhra Pradesh: Rs.6.12 lakhs was given in 1988-89 to the Andhra Pradesh Agricultural University for organising 'Adaptive Trials' but only 15 trials were organised during 1988-90 after expending Rs.1.17

lakhs. The Commissioner of Agriculture directed in November 1988 the organisation of trials by departmental staff adopting the programme designed by the Agricultural University. 'Adaptive Trials' (expenditure: Rs.5.78 lakhs) were organised by departmental staff not conversent with research activity defeating the very purpose of organising 'Adpative Trials'. No support from the Central Research Institute for Dryland Agriculture, Hyderabad, under the Indian Council of Agricultural Research, was taken.

Kerala: Adaptive trials to cover only 110 hectares of land were organised as an Operational Research Project in Ozhalapathy during 1988-89 and 1989-90.

Madhya Pradesh: No adaptive trials were conducted in Umarthana watershed in Guna district.

Maharashtra: Little or no expenditure was incurred on adaptive trials.

Rajasthan: Shortfall in organising adaptive trials was 96 *per cent* and 80 *per cent* during the years 1988-89 and 1989-90 respectively, against the targets. No details were reported in 1990-91.

Uttar Pradesh: Research scientists were not involved in the 'Adaptive Trials' organised during 1989-90 and 1990-91 in Attara, Baberu, Banda and Hamirpur units.

West Bengal: Adaptive trials were not organised.

(v) Development of non-arable lands

Development on non-arable lands in the watershed was to be planned under NWDP but activities (as given below) were to be funded not from NWDP but from the on-going schemes such as RLEGP, NREP, DPAP, Rural Employment Guarantee Scheme, Soil Conservation Programme in the Catchment of River Valley Projects, Integrated Watersheds Mangement in the catchments of Flood Prone Rivers and State Land Use Boards' schemes.

- Silvi-Pastoral system

- Tree farming (social forestry)

- Development of pastures.

- Soil conservation works.

Expenditure from other on-going schemes was not incurred on non-arable watershed lands in Assam, Karnataka, Kerala, Orissa, Rajasthan and possibly in Gujarat where details of such expenditure were not available. In Maharashtra, expenditure on horticulture and tree plantation was debited to NWDP though such expenditure was to be financed from funds of other on-going programmes. In Andhra Pradesh and Uttar Pradesh, some funds (Rs.37.58 lakhs and Rs.241.04 lakhs respectively) came from other schemes.

Not less than 50 *per cent* of activity in watersheds was to be on non-arable land and not less than 40 *per cent* on arable lands.

Though this component apparently ranked high in priority in the Programme, in practice it was implemented very poorly. The funding of this component having been made dependent on other programmes, in effect, downgraded its priority. The following shortcomings in implementation noticed in various States bear out the conclusions.

Andhra Pradesh: No funds were available for social and farm forestry during the years 1986-87 to 1988-89. Plant material valued at Rs.5.52 lakhs was received in Podili and Vikarabad watersheds in 1990-91 and Chittoor and Warangal watersheds in 1991-92 though there was no programme on there. In Adilabad, Chittoor, Mahaboobnagar and Ranga Reddy districts, 1.33 lakh mango grafts required for dry land horticulture were procured at Rs.13 per mango graft during the years 1988-89 and 1989-90 from Agri-Horticultural Society, Hyderabad against the prevailing market rates ranging between Rs.8.50 and

Rs.10.00 per mango graft resulting in avoidable extra expenditure of Rs.4.48 lakhs.

Since money for non-arable land was not to come from NWDP funds, in 12 out of 20 districts expenditure on non-arable land was low at Rs.14.12 lakhs and on arable lands it was high at Rs.162.88 lakhs.

Assam: In Hojai an amount of Rs.3.88 lakhs was spent between May 1989 and January 1990, on plantation of horticulture and soil conservation seedlings. No record showing species and number of seedlings planted, was maintained. According to tour note (March 1990) of an officer of the Directorate of Agriculture, the plantation was stated to have been completely damaged by cattle and the seedlings planted in the fields were not looked after. The Agro-Economic Research Centre for North East India and Assam Agricultural University, Jorhat, in their report (September 1990) based on survey of the impact of the Programme observed that they did not come across any dryland horticulture on community land or on private land in the villages selected for survey. Trees like lemon, guava, subabul, etc. stated to have been planted on the graded bunds could not be traced by them. The plantation and grassing on grades had been destroyed by stray cattle soon after plantation. On the other hand report from Hojai (April 1991) stated that 13,137 plants had survived.

Details of fodder plots developed, area covered, expenditure incurred, etc. were not on record.

Gujarat: Details of works executed and expenditure incurred on non-arable lands was not available.

Haryana: Activities such as silvi pasture, fodder development, agro-forestry, development of sericulture, animal husbandry, etc. were not taken up.

Karnataka: In Belgaum, Kolar, Raichur and Tumkur districts, developement of non-arable lands were not taken up excepting in Raichur district where 99.5 hectares of non-arable lands were developed in 1987-88 at a cost of Rs.3.50 lakhs. The expenditure was met from the NWDP instead of from other on-going schemes.

Orissa: Cashew plantation done at a cost of Rs.1.22 lakhs over 188 hectares in the Semiliguda Range of Kerandinala watershed survived only to the extent of 30 to 40 *per cent*.

The percentage of mortality of 8365 orchard plantations done in Kerandinala, Nisar, Pedagada and Sagar waterhseds during 1988-89 and 1989-90 at a cost of Rs.2.08 lakhs ranged between 51 and 100 (excepting in Kerandinala and Sagar watersheds in 1988-89 where the mortality was 22 *per cent* and 26 *per cent* respectively).

No expenditure from any on-going scheme was incurred to develop the non-arable lands in the watersheds and an amount of Rs.19.87 lakhs was irregularly incurred on activities in non-arable lands out of NWDP funds during the years 1987-88 to 1990-91.

Punjab: No expenditure was incurred on this component.

Rajasthan: No work to develop non-arable land was taken up by obtaining funds from other on-going schemes in Bhungra, Kalsada, Khansurajpur, Madhograh-Rampura, Pipalkhunt and Siyakho watersheds. Only supply of inputs (seeds, fertilizers plant protection chemicals) to the farmers were proposed under crop management works. Other uses of land e.g. for augmenting fodder, fruit and fuel as were suitable to the lands in the area were not proposed at all during the years 1986-87 to 1990-91 in the whole State except on 64.3 hectares. Reason advanced was of "no budget provision" for non-arable lands under the Programme. But in Pipalkhunt watershed in Banswara district, on 83.02 hectares of non-arable land contour bunding at a cost of Rs.1.64 lakhs was done under NWDP though the work was not covered under the Programme.

Uttar Pradesh: In seven units 4.91 lakh plants (cost: Rs.5.13 lakhs) were distributed to the farmers during the years 1988-91 for plantation on field boundaries, in front of houses, public places, etc. without ensuring that advance soil work had been done and pits of the desired size had been dug. There was no record on survival of the plants.

No silvi pasture or fodder development programme was carried out on non-arable land in any of the units test checked.

(vi) Use of Improved Tools and Equipment

Popularising use of survey instruments, soil testing equipment, hand and powered field tools hiring of agricultural machinery and purchase of agricultural implements and equipment for use in demonstration and to induce the farmers to adopt them was also a component of the Programme. The equipment for demonstration were not to be distributed free of cost or at subsidised prices.

The planning of this component was poor. Inputs from agricultural scientists specialising in use of modern mechanical implements to improve yields were not demonstrated to farmers. The following shortcomings in implementation noticed in the States bear out the conclusion:

Andhra Pradesh: Implements and equipment were supplied at 50 *per cent* to 90 *per cent* subsidy to the farmers during Seventh Plan at a cost of Rs.131.06 lakhs though under NWDP no subsidy was allowed.

Farm implements costing Rs.6.89 lakhs received in November and December 1989 for use in watersheds lay in the agricultural depots and were not demonstrated in the respective watersheds (June 1991).

Assam: No expenditure was incurred on this demonstration component.

Karnataka: In Raichur district agricultural implements like furrow openers, ridgers and knapsack sprayers were purchased at a cost of Rs.3.19 lakhs in March 1988 but were not demonstrated. They were given away to farmers free of cost, though not allowed under the Programme.

Maharashtra: Little or no expenditure was incurred on demonstrating improved tools and equipment. 2924 number of 'Aluminium Levelling Staff' costing Rs.15.12 lakhs were purchased at Rs.517 per piece against the lowest quotation of Rs.142 received from a public sector undertaking.

Drawing boards, cross staff and plane table were procured in excess of requirement costing Rs.0.96 lakh when sufficient stock of the materials were held.

Orissa: The Soil Conservation Officer, Koraput distributed implements costing Rs.0.51 lakh free of cost to the farmers in Kerandinala, Nisar and Pedagada Watersheds, though not allowed under NWDP.

Punjab: No expenditure was incurred on this component.

Uttar Pradesh: Twelve sprinkler sets were purchased at a cost of Rs.4.80 lakhs in March 1989 for arranging demonstrations on farmers' fields. To Atarra, Banda, Baberu, Chirgaon, Hamirpur and Mauranipur I and II units eight sets were sent but no demonstrations were held. The sets lay idle (July 1991). 12 sets of other agricultural implements purchased at a cost of Rs.2.50 lakhs during the years 1988-89 to 1989-90 were meant for 10 units in Banda, Hamirpur and Jhansi districts for purpose of demonstration. Seven sets (cost: Rs.1.75 lakhs) were not supplied to the field staff for demonstration. According to the 'Bhoomi Sanrakshan Adhikaris' the implements were very common and popular ones in use in the area already. The implements had been demonstrated in the Kissan meetings but the number of demonstrations arranged and period during which they were arranged were not on record.

(vii) Monitoring

The Central Sanctioning Committee met only thrice during the years 1986-87 to 1990-91. The Joint Inspection Teams of the Central Government did not undertake field visits to review and evaluate the implementation of the Programme in Andhra Pradesh, Karnataka (not till August 1991), Kerala and Uttar Pradesh (as per evidence in units test-checked). In Punjab also no details of visits by Joint Inspection Team were available. No information on increase, if any, in agricultural production or productivity in the watershed lands was available in the Ministry. From shortcomings brought out in the preceding paragraphs, it would be apparent that the Programme implementation was not monitored for economy or increased production. The cost to benefit derived from the expenditure was also not analysed or use made of such analysis.

The Ministry was requested (June 1991) to furnish to Audit the following information and records but they could not be made available (October 1991).

- Yearwise amounts released and expenditure by Centre and States, incurred on the Programme during the years 1986-87 to 1990-91 (This was collected by Audit from numerous sources but figures have not tallied with Government Accounts).

- List of States which did not expend their share of funds.

- Names of watersheds, State-wise approved for the Programme by the Central Sanctioning Committees.

- Statewise, names of watersheds, their areas, arable and non-arable, watersheds saturated, watersheds abandoned midway togetherwith expenditure incurred on each (the information could not be obtained State-wise also).

- Location specific variety of seeds recommended by Agriculture Universities and Indian Council of Agricultural Research and its institutions or laboratories for use in watersheds areas; location specific technological and farming practices recommended.

- Tour reports of Central and State Level supervisor commenting on progress of the Programme.

In short the monitoring was inadequate in the Ministry in the matter of systematic information collection, collation and control.

The monitoring was poor at State level also. At the State capital level no monitoring of the Programme was done in Gujarat, Haryana and West Bengal. It was inadequate in Andhra Pradesh, Assam, Kerala, Maharashtra, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh. The Watershed Development Teams for execution of the works were not even formed in Assam, Maharashtra, Orissa, Punjab, Rajasthan and Tamil Nadu (five watersheds). Other shortcomings noticed in the States are given below:

Andhra Pradesh: The meetings of the District Watersheds Development Committees to review progress and to analyse problems were not held regularly. In Anantapur and Prakasam districts, District Watershed Development Committees were constituted but did not meet even once. In Chittoor and Mahaboobnagar districts, only one meeting was held.

Assam: There was nothing on record to show that any officer of the Government of India visited the State to monitor the progress of the Programme.

Kerala: The responsibility in the State seemed to be confined to distribution of seeds, ssedlings, fertilizers, etc. to the farmers in the Watershed areas.

Orissa: The Scientific Consortium, constituted in February 1987, never met.

Maharashtra: Out of 2,94,603 hectares of land in 380 watersheds to be taken up in 19 districts, only 1,18,821 hectares (44.36 *per cent*) were covered during the years 1987-88 to 1990-91 leaving 1,75,782 hectares uncovered at the end of project period. But according to the State Government work on 346 watersheds had been completed (March 1991) and work on 34 remained incomplete. The monitoring clearly left much to be desired. The State Level Sanctioning Committee, met thrice in 1987-88 but only once in each of the following years 1988-89, 1989-90 and 1990-91. The Scientific Consortium was not formed (May 1990).

Rajasthan: During visits by officers technical lapses in execution of land development works carried out in the watersheds, such as height of bunds being less than the requirements, non-construction of bunds at desired interval looking to the slope of the land, non-construction of diversion channels, non-measuring of water discharge and non-calculating of maximum run off, were pointed out. They were circulated to all concerned field units. Further, reports stated that due to non-construction of diversion channel, rain water from the hilly reaches entered the fields and damaged contour bunds. Also due to non-providing of waste weirs, water collected in the fields and damaged bunds. The crops were also damaged due to run-off of un-controlled water. Though monitoring was relatively better, action taken on the monitorings report was not on record.

Uttar Pradesh: The State Level Committee held only five meetings from October 1986 to July 1990 instead of reviewing the progress of the Programme every quarter.

In three districts (Banda, Hamirpur and Jhansi), reports indicated that seven Watersheds were sub-divided into 568 micro-watersheds. Of these, 177 micro watersheds were saturated (activity required was completed) at a cost of Rs.365.55 lakhs between April 1988 and July 1991. In 391 micro-watersheds expenditure of Rs.651.36 lakhs was incurred, but they remained unsaturated (July 1991) reportedly due to non-availability of funds for treatment of non-arable lands. The monitoring was relatively better in these areas.

West Bengal: There was no record of areas monitored, data collected and increase in yield, etc.

(viii) Training

Training of a large number staff and farmers in Soil Hydrology and Agronomy in recognised agencies and State Agricultural Universities was a part of the Programme. Assistance at the rate of Rs.7200 per training course of four days duration for 30 participants was available to State Governments under the Programme. The planning of this component was not detailed enough or need based as the following findings bring out.

Assam: Expenditure was incurred on study tours in excess of Rs.7200 per training course.

Kerala: Against the target of 82 training courses for training 2460 participants during the years 1986-90 at a cost of Rs.5.90 lakhs, only two courses were held in March 1990 at a cost of Rs.5000 for 40 participants.

Maharashtra: Little or no expenditure was incurred on training.

Rajasthan: Rs.1.72 lakhs were paid to the State Agricultural University Bikaner for arranging training courses on soil conservation, technological advances in dryland agriculture, watershed management and workshop on soil conservation. Rs.0.55 lakh were lying unutilised with the Agriculture University (April 1991). The Utilisation Certificates furnished by the University in July 1990 revealed that training courses were not held in 1988-89 and 1990-91 and that the number of participants in three courses held in 1989-90 was 12, 23 and 15 respectively as against the prescribed number of 30 in each course.

Uttar Pradesh: Expenditure of Rs.5.95 lakhs was incurred during 1988-91 on organising 31 training courses for 1535 staff participants. Total number of staff engaged in execution of the Programme was only 452 indicating lesser emphasis in training farmers. 118 farmers' training courses for 27,405 farmers of two days duration were held in departmentally run training centres at Jhansi and Lucknow.

3.3.7 Conclusions

The allocation of funds at field level was to be worked out by reference to works needed on each land and what benefits would accrue from that land by execution of that work. But, the emphasis, in practice appeared to be on spending the allocated funds on land works in a watershed without reference to the minimum requirement of funds for the benefit to accrue from each arable land. Same applied to expenditure on crop improvement.

At the time the NWD Programme was introduced many other overlapping Schemes were also in operation e.g. Integrated Rural Development Programme, Desert Development Programme, Drought Prone Area Programme, National Oilseeds Development Programme, National Pulses Development Programme, Rural Landless Employment Guarantee Programme, National Rural Employment Programme, Assistance to Small and Marginal Farmers for Increasing Agricultural Production, Soil Conservation Programmes in the Catchment of River Valley Projects. The NWDP was to focus on land and crop improvement. On the non-arable lands, tree farming, pastures and soil conservation works were to be funded from the on-going schemes and not NWDP.

The emphasis (as a part of the planning of the Programme) was on getting funds from other programmes and not on the attention which specified non-arable lands in specified watersheds required and how much that would cost.

The State Level Sanctioning Committees and Central Joint Inspection Teams did not meet regularly to review or monitor progress of Programme on all the lands on which Programme was to be implemented. The Watershed Developments Teams at grass root level were not formed for execution of the work in some States. The basis for monitoring was not the benefit derived from the land but expenditure incurred from allocation.

On demonstration, adaptive trials and demonstration of tool and modern mechnical appliances, the planning was not detailed enough nor did it associate appropriate scientific agencies for change of practices and education of farmers.

The organisational set up at Development Team level did not appear to be suited to maximising the yields from each land.

Project Manual on organisation, planning, job descriptions for implementation, operating procedures, technical specifications, organisation, procedures, training, beneficiary participation, financial norms, reporting and monitoring schedules was not prepared in Assam. Gujarat, Haryana, Kerala, Maharashtra, Orissa, Rajasthan, Tamil Nadu and West Bengal. In Rajasthan, a Manual was attempted by the Additional Director, Soil Conservation, Jodhpur but was not drafted even after expenditure of Rs.1.15 lakhs was incurred on it. By not getting appropriate Manuals prepared at Ministry level for use of Development Teams, the Programme failed to initiate surveys and residiuary micro planning at level prior to funding nor encourage selective participation of dedicated beneficiary farmers.

In the absence of manuals or written orders delegating powers to Development Teams, the personnel at lower levels were unlikely to deviate from the norms prescribed under the Programme, even where deviation would lead to more yield.

The Programme involved expenditure by the Central and State Governments on lands of farmers. The activities were determined by the Central and State Government which incurred the expenditure. The expenditure has grown from Rs.5.28 crores in 1986-87 to Rs.31.12 crores in 1989-90 and Rs.32.49 in 1990-91 and it could well go upto Rs.168.98 crores in 1991-92 which is the amount provided for the Programme by the Central Government in the form of grants-in-aid and loan to State Governments. The farmer had little say in the optimal utilisation of the funds under the Programme, commensurate with the additional yield expected from his farm. In the execution of the Programme, emphasis on cost benefit analysis appeared to be inadequate.

Five years have elapsed since the Programme was launched for the development of watersheds but no evaluation study of the impact of the Programme was conducted in the States of Assam, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu and West Bengal. The scheme is now wholly financed by Central Government establishing a nexus between it and the beneficiary farmers through the agency of the State Government which meets 25 *per cent* of the cost using loans from Centre. The loan is to be repaid by State to Centre and is not to be recovered from beneficiary farmers by the State Governments. The linkages to productivity increase from the subsidy in watershed programme (and other programmes) and linkages to cash subsidy for land and crop improvement, subsidy in fertilizer prices, interest subsidy on credit, etc. had not been clearly spelt. Nor was linkage of subsidies to minimum procurement price for the yield spelt out. The computer facilities set up at block level all over India by the National Informatic Centre was also not sought to be used for almost real term monitoring of the Programme in each watershed all over India by the Ministry and monitoring the aforesaid linkages.

3.4 Animal Quarantine

Under the Livestock Importation Act, 1898, as amended by the Livestock Importation (Amendment) Act of 1953, Government of India is empowered to regulate, restrict or prohibit, by notification, the import of livestock liable to be affected by infectious or contagious diseases. The responsibility for the detention, inspection, disinfection or destruction of imported livestock is vested with the State Governments.

The Animal Quarantine and Certification Service Station, (Station) Madras was established by the Ministry in December 1974 (as one of four to be set up in the country) to provide adequate precaution against the invasion of infectious and exotic diseases through imported livestock and also to provide internationally accepted certification service for livestock and livestock products exported. It functioned in a rented building initially and in April 1984 moved to its own building, at Pallikaranai, constructed at a cost of Rs.83.36 lakhs. They included 13 residential quarters for staff (cost Rs.14 lakhs), as also poultry pen, laboratory, animal sheds and feed stores (cost Rs.39.42 lakhs). The station was also provided with laboratory equipment (cost Rs.2.46 lakhs), incinerator (cost Rs.1.91 lakhs) and an animal carrier (cost Rs.2.62 lakhs). The expenditure on running the station from 1974-75 to 1990-91 amounted to Rs.39.02 lakhs.

A test check of the accounts of the station, in audit, disclosed the following:

(i) The Act does not provide for quarantining of imported animals by the Central Government. No livestock or other animals or birds had been quarantined in the Station so far. The animal sheds, feed stores, laboratory etc. constructed at a cost of Rs.39.42 lakhs (December 1985) have remained unused.

(ii) 9 persons are posted in the Station (November 1991) which has 13 residential quarters. Four quarters have remained vacant since their construction (April 1984).

(iii) The imported animals were physically examined at the premises of the importers or at the airport or seaport. The laboratory tests were done at the Madras Veterinary College and other approved laboratories before certification and not at the station. Equipment purchased at a cost of Rs.4.37 lakhs remained idle except for some minor items costing Rs.0.24 lakh.

(iv) The infection stage animal carrier procured in 1982 at a cost of Rs.2.62 lakhs for use in quarantine work was not used as intended. Instead it was used for transportation of animals.

The Ministry to whom the matter was referred, stated (September 1991) that only one consignment of animals (bulls) were received in April 1990 after quarantine facilities came up at the Station and till then quarantine was done at State Governments farm at Hosur. It was also stated that the laboratory at the Station undertook routine tests but sensitive tests were done at referral laboratories elsewhere which were better equipped. The Regional Officer had, however, stated (March 1991) that laboratory equipments worth Rs.2.22 lakhs out of the total laboratory equipments purchased for Rs.2.46 lakhs were still to be put to use.

3.5 Central Poultry Breeding Farm, Bombay.

The Central Poultry Breeding Farm, Bombay was established in 1959 and is headed by a Geneticist as the Director. It engages in scientific poultry breeding and genetic improvement of birds. Number of eggs produced per bird, the average weight of egg, the fertility and the hatchability of eggs improved during the years 1985-86 to 1990-91 are as indicated below.

Items	1985-86		1986-87		1987-88		1988-89		1989-90		1990-91	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
Parent Chicks	3400	3400	5000	1269	7500	930	10000	6798	18500	2400	10000	4955
Male line Performance												
a) Egg no. from 20-40 week olds	89	94.0	106	108.4	108	100.2	110	100.4	112	103.6	*	*
b) Egg weight in gms from 40 week olds	44	44.2	47	46.8	48	50.0	49	50.6	50	53.5	*	*
c) Fertility %	80	84.5	81	85.4	82	90.7	83	85.7	84	89.0	*	*
d) Hatchability%	70	76.4	71	82.4	72	83.0	73	67.2	74	74.1	*	*
Female line												
a) Egg no from 20-40 week olds	95	85.9	100	100.8	102	100.2	104	106.3	106	99.4	*	*
b) Egg weight from 40 week old	47	46.7	51	50.8	52	50.3	53	53.5	54	54.8	*	*
c) Fertility %	80	86.5	81	91.0	82	82.3	83	85.4	84	85.7	*	*
d) Hatchability %	70	77.4	71	87.7	72	72.6	73	69.9	74	74.6	*	*

* Not furnished to audit

The receipt and expenditure of the Farm during the years from 1985-86 to 1990-91 were as under:-

Year	Expenditure	Target for receipts	Actual receipts
			(Rs. in lakhs)
1985-86	19.51	9.17	9.17
1986-87	22.36	12.00	9.78
1987-88	26.45	14.00	18.45
1988-89	31.70	16.00	14.22
1989-90	39.23	18.00	14.45
1990-91	34.31	Not available	17.82
	173.66		83.89

The Director stated (July 1991) that there were no specific instructions from the Government that the expenses of the Farm must be fully met by receipts but efforts were being made to reduce the gap between the expenditure and receipts. The price for sale of parent chicks was Rs. 20 per chick, on the average. But during the period from 1985-86 to 1990-91 (upto November 1990) though the target for production of chicks was 54400 only about 20000 chicks were produced.

The shortfall in achievement was attributed by the Director of the Farm, (April 1991) to

i) vacancy in the post of regular Director from June 1985 to August 1989.

ii) Absence of marketing -cum-extension wing to generate more orders for parent chicks and commercial stocks.

iii) Non-availability of more funds for research and development.

The price per egg for hatching ranged between Re 1 to Rs.1.50 during the years from 1985-86 to 1990-91 and price of table egg during the same years ranged between Rs.0.42 to Rs.0.63 each. The Farm could not utilise the hatchable eggs for production of chicks and they were sold at lower price as table eggs. Therefore the Farm lost revenue of Rs. 33.96 lakhs during the years from 1985-86 to 1990-91.

The Director stated (April 1991) that in the absence of Marketing it was not possible to get sufficient orders by keeping liasion with hatcheries.

The matter was referred to the Ministry in August 1991; their reply has not been received (November 1991).

CHAPTER IV

Department of Rural Development

4.1 Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Department (Grant No.4) amounted to Rs. nil crores and Rs.2982.89 crores respectively.

The progressive capital outlay, as at 31st March 1991, on other Rural Development Programmes is given below under respective capital major heads of account. The outlay should generate revenues and returns to Government. The revenue expenditure and revenue receipts in 1990-91 under the corresponding revenue heads of account are given alongside. The component of outlay invested in identifiable organisations or undertakings (whether declared commercial or not), Public Sector Undertakings and Cooperatives are given below within brackets. N.A. indicates information has not been made available in the accounts. The Chief Accounting Authority of the Department would need to take follow up action for getting wanting information in accounts and improving returns from capital outlays and investments. He may also need to drop from the progressive capital outlay the expenditures which are not correlatable to any assets on the register of assets, physical or financial and cannot also be truly entered in the register of assets to rectify omissions. Action has also to be taken to declare activities identifiable as "Departmental Undertakings" and those which should make profits as "Departmental Commercial Undertakings". All Public Sector and other Undertakings, cooperatives and Departmental Commercial and non Commercial Undertakings need to be listed in Statement No.11 of the Finance Accounts indicating the capital invested in them and the return realised from them.

(Rupees in crores)

Sl. No.	Major Head	Progressive Capital Outlay as at the end of 1990-91	1989-90	1988-89	Revenue Expenditure 1990-91	Revenue Receipts 1990-91
1.	4515-Capital Outlay on other Rural Development Programmes	3.07	2.15	1.60	384.27 (Heads-2501, 2505, 2506 and 2515)	0.04 (Head-0515)
	(Banana and Fruit Development Corporation)	(0.39)	(0.39)	(0.39)	--	(Nil)
	(Jammu & Kashmir Horticultural Produce Marketing & Procuring Corporation)	(3.20)	(3.20)	(3.20)	--	(NA)

The loans and advances given and outstanding as at 31st March 1991, for Panchayati Raj programmes amounted to Rs.1,36,000 (Head 6515-101) as indicated in statement No.15 of the Finance Accounts. The Chief Accounting Authority in the department will need to effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loanee wise details given in statement No.3 all the Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

4.2 Adjustments to be made in Finance Accounts

In the balances at the end of 1990.91 which are reflected in the Finance accounts the adjustments or review of the balances under the following heads of account need to be made by the Chief Accounting Authority in the Ministry/Department as indicated in the remarks column.

(Rupees.in thousands)

Heads of Account	Balance as at the end of			Remarks
	1990-91	1989-90	1988-89	
6515-102 Loans for Community Development	(-)8,40	(-)8,50	(-)5,49	The minus balances are the results of misclassifications of interest or other receipt as recovery of loan which needs rectification. If there was over recovery of loan and the amount has not been claimed then the excess needs to be credited to revenue as per codal provisions.
6515-103 Loans for Rural Works Programme.	(-)1	(-)1	(-)1	

CHAPTER V

Deparment of Fertilisers

5.1 Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Department (Grant No.5) amounted to Rs.154.64 crores and Rs.5395.12 crores respectively. After adjusting the recoveries the amounts brought to account in Finance Accounts were Rs.154.64 crores and Rs.4404.66 crores respectively.

The progressive capital outlay, as at 31st March 1991 on Fertilizer Industries is given below under respective capital major heads of account. The outlay should generate revenues and returns to Government. The revenue expenditure and revenue receipts in 1990-91 under the corresponding revenue heads of account are given alongside. The component of outlay invested in identifiable organisations for undertakings (whether declared commercial or not), Public Sector Undertakings and Cooperatives are given below within brackets. N.A. indicates information has not been made available in the accounts, though required to be given. The Chief Accounting Authority of the Department would need to take follow up action for getting wanting information in accounts and improving returns from capital outlay and investments. He may also need to drop from the progressive capital outlay the expenditure which are not correlatable to any assets on the register of assets, physical or financial and cannot also be truly entered in the register of assets, physical or financial and cannot also be truly entered in the register of asset to rectify ommissions. Action has also to be taken to declare activities identifiable as "Departmental Undertakings" and those which should make profits as "Departmental Commercial Undertakings". All Public Sector and other Undertakings, cooperatives and Departmental Commercial and non-Commercial Undertakings need to be listed in Statement No.11 of the Finance Accounts indicating the capital invested in them and the return realised from them.

The net Capital expenditure of around Rs.3000 crores towards loss incurred on imports of fertilizers around 1986-87 shown as Capital outlay would have to be considered for dropping from the progressive capital outlay.

(Rupees in crores)

Sl. No.	Major Head	Progressive Capital Outlay as at the end of 1990-91	1989-90	1988-89	Revenue Expenditure 1990-91	Revenue Receipts 1990-91
1.	2.	3.	4.	5.	6.	7.
1.	4855-Capital Outlay on Fertiliser Industries.	2852.69	2826.32	2723.55	3743.84 (Head 2852-03)	NA
	(4855-105-Investment in Cooperative Fertiliser Factories)	(2433.36)	(2433.36)	(2433.36)	--	(NA)
	(4855-190-Investments in Public Sector and other Undertakings)	(419.33)	(392.96)	(290.19)	--	(NA)
	(Fertiliser Corporation of India Ltd.)	(524.87)	(524.87)	(490.37)		Nil (loss upto 31.3.86 was Rs.836 crores)
	(Fertiliser & Chemicals Travancore)	(339.31)	(339.31)	(319.31)		(Nil)
	(Hindustan Fertiliser Corporation)	(669.22)	(645.22)	(615.22)		(Nil) (Loss upto 31.3.87 was Rs.516 crores)
	(Madras Fertiliser Ltd.)	(30.22)	(29.22)	(19.22)		(Dividend Rs.3.31 crores for 1989-90)
	(National Fertilisers Ltd.)	(490.58)	(490.58)	(490.58)		(Dividend Rs.4.90 crores for 89-90)
	(Paradeep Fertiliser)	(96.50)	(96.50)	(96.50)		(Nil)
	(Projects & Development India)	(34.52)	(33.52)	(29.25)		(Nil)

1.	2.	3.	4.	5.	6.	7.
	(Pyrites, Phosphates & Chemicals)	(70.47)	(70.10)	(66.10)		(Nil)
	(Rashtriya Chemicals & Fertilisers)	(551.69)	(551.69)	(551.69)		(Dividend for 89-90 Rs.11.03 crores
	(Indo-Senegal Joint Venture)	(10.75)	(10.71)	(10.71)		N.A.
	(Indian Explosives Ltd.)	(2.90)	(2.90)	(2.90)		N.A.
	Indian Farmers Fertilisers Coop. Ltd.	(289.60)	(289.61)			(Dividend Rs.10.25 crores 87-88 and 88-89)

The loans and advances given and outstanding as at 31st March 1991, for Fertilizer industries are also given below, as indicated in statement no.15 of the Finance Accounts. The components of loan given to identifiable organisation or undertaking are given below within brackets. NA indicates that information has not been made available in the accounts though required to be given. The interest recovered will need to be given in the statement against loans under each minor head separately, in future, in addition to the interest on loans under the major head. Against some of the loans very little or no recovery has been made in the last three years and interest recovered is also relatively meagre. In statement No. 3 of Finance Accounts, Ministry/Departmentwise and loaneewise, some of the outstanding loans and interest are indicated; but information is not complete. Also the amounts of loans outstanding and amounts of instalments overdue for recovery, both need to be given in the statement, in future. The Chief Accounting Authority in the department will need to take follow up action for getting wanting information and effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loanee wise details given in statement no.3, all the Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

(Rupees in crores)

Sl. No.	Head of Account	Amount of loan outstanding as on 31.3.91	Loan Recoveries during 1990-91	1989-90	1988-89	Interest received during 1990-91	1989-90	1988-89
1.	6855-Loan for Fertiliser Industries	2249.98	50.07	64.27	(1.91)	44.53	98.97	80.56
	(6855-101 Loans to Fertiliser Cooperative)	(68.12)	nil	(22.71)	(1.42)	(NA)	(NA)	(NA)
	(6855-190-Loan to Public Sector and other Undertakings)	(2181.85)	(50.07)	(41.56)	(49.62)	(49.62)	(NA)	(NA)

5.2 Subsidy to indigenous manufacturers of fertilizers

5.2.1. Introduction

During the last thirteen years, consumption of fertilizers went up in India by 146 per cent and production by 208 per cent. The share of imports in the consumption of fertilizers decreased from 50 per cent in 1980-81 to 11 and 21.93 per cent in 1987-88 and 1990-91 respectively. The indigenous production, imports and consumption of fertilizers in India from 1978-79 to 1989-90 are given in Appendix XII. The installed capacity for production of nitrogenous and phosphatic fertilizers in the country, in terms of nutrients, increased from 19.47 lakh tonnes and 5.81 lakh tonnes respectively at the end of 1973-74 to 81.47 lakh tonnes and 27.51 lakh tonnes respectively in 1990-91 (September 1990).The indigenous production of fertilizers in terms of nutrients* increased from 29.40 lakh tonnes in 1978-79 to 90.45 lakh tonnes in 1990-91. The consumption in terms of nutrients went up from 51.17 lakh tonnes in 1978-79 to 125.76 lakh tonnes in 1990-91.

* Nutrient is the useful Nitrogen, Phosphorus or Potassium content in the fertilizer.

The installed capacity for production of nitrogenous, phosphatic and single and triple super phosphate fertilisers in the country as on 1st October 1990 stood distributed in the different sectors as under:

Sector	Nitrogenous	Phosphatic	Single and triple super phosphate (included in column 3)	Total of columns (2) and (3)
(1)	(2)	(3)	(4)	(5)
		(in lakh tonnes of nutrient)		
Public	43.40	8.14	1.07	51.54
Private	22.75	16.28	7.40	39.03
Cooperative	15.32	3.09	--	18.41
Total	81.47	27.51	8.47	108.98

The distribution of investment made in the industry since the Fourth Plan period was as under:

(Rupees in crores)

At the end of	Investment in different sectors			
	Public	Private	Cooperative	Total
Fourth Plan (1969-74)	466.30	316.80		783.10
Fifth Plan (1974-79)	1105.50	553.80	97.60	1756.90
Sixth Plan (1980-85)	2550.00	1228.10	331.10	4109.20
Seventh Plan (1985-90) (As on 1st October 1990)	4855.80	2551.20	1954.10	9361.10

The prices of fertilizers to consumers are fixed by the Department of Agriculture and Cooperation under the provisions of the Essential Commodities Act, 1955. The prices of urea, di-ammonium phosphate and single super phosphate and the dates from which they were effective are given in Appendix XIII. To ensure a reasonable return on the investment in the fertilizer industry, which is affected adversely by the statutory fixation of sale prices, Government introduced a subsidy scheme in November 1977, initially for nitrogenous fertilizers and the scheme was later extended to other fertilizers.

5.2.2. Organisational set up of the FICC

The Fertilizer Industry Coordination Committee (FICC) was constituted by Government in December 1977 to administer and operate the system of retention prices. The FICC consists of Secretary, Department of Fertilizers as the Chairman and Secretaries to the Government in the Departments of Industrial Development, Agriculture and Cooperation and Expenditure and Chairman, Bureau of Industrial Costs and Prices as members. In addition, there are two representatives of the fertilizer industry in the FICC. The FICC is assisted by its office headed by an Executive Director who is also the Member Secretary of the Committee. The scope and functions of the FICC are:

(a) to operate the Fertilizer Price Fund Account to be created for the purpose of administering the system of retention prices;

(b) to maintain accounts and make payments to and recover amounts from fertilizer units. Recovery is made in case the sale amount realisable by a unit, based on normative retention price fixed for each plant, is less than the actual realisation from the sale of fertilizers based on the statutory sale prices;

(c) to undertake costing and other technical functions;

(d) to collect and analyse production data, costs and other information;

(e) to review the retention prices periodically in consultation with the Bureau of Industrial Costs and Prices and to make adjustment in retention prices, wherever necessary, with the prior concurrence of the Government;

(f) to undertake the examination necessary for evolving retention prices for future pricing periods; and

(g) to undertake such other functions as the Government may entrust to the FICC from time to time.

Payments of subsidy with reference to (i) the retention price and (ii) the equated freight as notified by the Government are made by the FICC on a monthly basis on receipt of claims from units. The claims for the two types of subsidy, preferred by the manufacturing units, were paid directly by the FICC till October 1987. Since then, the FICC is sending bills (for claims of Rs. one crore and above), alongwith requisitions for cheques/drafts, to the Pay and Accounts Officer of the Department of Fertilizers who arranges payments to units. The monthly claims are supported by details of quantity of fertilizer manufactured and moved out of the factory and quantity supplied free of cost and used for purposes other than agriculture.

5.2.3 Subsidy related to retention price

The following fertilizers are covered by the "Retention Price and Subsidy Scheme (RPS)":

	Type of fertilizer	Date from which brought under the RPS scheme
1.	Nitrogenous	
	- Urea	1st November 1977
	- Ammonium Sulphate and Calcium Ammonium Nitrate	21st August 1984
	- Ammonium Chloride	19th April 1985
2.	All grades of complex fertilizers (NP andNPK*)	1st February 1979
3.	Single Super Phosphate	23rd May 1982

* ('N' - Nitrogenous, 'P' - Phosphatic and 'K' - Potassic)

The Retention price is the ex-factory price per tonne of fertilizer determined with reference to the assessed cost of production as well as post-tax return on net worth (equity and free reserves) at a specified rate.

Under the scheme, retention prices are fixed plant-wise and product-wise.

The retention prices vary from plant to plant depending upon vintage, feedstock, process involved, location, financing pattern, etc. All the elements of costs viz. feedstock, fuel, utilities, packing material, conversion charges, repairs and maintenance, chemicals and consumables, depreciation and interest are taken into account in fixing the retention price, on the basis of a combination of past actuals and norms. Post-tax return of 12 per cent on net worth is included in the retention price except for single super phosphate fertilizers where post-tax return of 11 per cent on net worth is allowed. The retention price per tonne of fertilizers of various types is determined for each plant by dividing the total of the elements of cost indicated above (Rupees) by the production to be effected at the prescribed capacity utilisation (tonnes).

The first set of retention prices was worked out by the Marathe Committee for the period upto 31st March 1979. Retention prices are fixed generally for a period of three years called the 'pricing period'. During the 'pricing period' increase or decrease in retention prices is allowed if there is increase or decrease in prices of major inputs. Computation of retention price on single super phosphate is done quarterly and is based on the quarterly input cost data submitted by the units. This method was adopted following the recommendations made in March 1980 by a Working Group constituted by Government for the purpose.

The subsidy paid to a unit is the difference between retention price plus the distribution margin per tonne allowed to the unit on the one hand and the statutory sale price per tonne to the consumer on the other.

5.2.4 *Subsidy related to freight*

In addition to the subsidy related to retention price, a freight subsidy has also been paid from 1979-80. This is done under the Equated Freight** Scheme and subsidy is paid to the indigenous fertilizer manufacturing units to cover the cost of movement of fertilizers from production points to consumption points. Equated freight for nitrogenous and complex fertilizers (i.e. except single super phosphates) covers transportation cost upto block headquarters. Equated freight rates are fixed annually for each unit on normative basis, taking into account State-wise allocations of fertilizers made by the Department of Agriculture and Cooperation under the Essential Commodities Act, 1955, anticipated distance of movement by rail and road, the actual distance of movement and the rail/road mix achieved during the preceding year. The overall objective is to minimise the distance of movements and cost of transportation to the units.

In the case of single super phosphate, freight subsidy covers transportation upto railhead or field godown only and it is included as an element in the retention price itself. It is not paid separately.

5.2.5 *Subsidy on imported fertilizers*

On imported fertilizers, the expenditure on import, handling and distribution are borne by Government on the one hand and met from its budget, and the receipts from their sale on the other hand are taken in reduction of expenditure of Government. The difference between the two is the subsidy borne by Government directly.

5.2.6 *Payment of subsidy*

The payments of subsidy to production units towards retention price and towards freight paid on indigenous fertilizers since 1977-78 are given below. Alongside,

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** The normative average cost of transporttion per kilometer for the total supply of fertilisers by a unit to different points both by road and rail.

the subsidy on imported fertilizers borne by Government directly is also given.

(Rs. in crores)

Year	Indigenous			Subsidy on imported fertilizers	Total
	Retention price subsidy	Freight subsidy	Total		
1	2	3	4	5	6
1977-78	24.88	NIL	24.88	NIL	24.88
1978-79	83.32	NIL	83.32	607.29	690.61
1979-80	267.35	28.93	296.28	281.80	578.08
1980-81	121.04	48.96	170.00	335.26	505.26
1981-82	182.45	92.55	275.00	100.22	375.22
1982-83	428.51	121.49	550.00	55.36	605.36
1983-84	733.75	166.25	900.00	141.82	1041.82
1984-85	1004.36	195.64	1200.00	727.31	1927.31
1985-86	1356.53	243.47	1600.00	323.71	1923.71
1986-87	1426.73	273.27	1700.00	197.12	1897.12
1987-88	1741.62	308.38	2050.00	113.85	2163.85
1988-89	2484.08	515.92	3000.00	200.70	3200.70
1989-90	3298.02	472.98	3771.00	771.10	4542.10
1990-91	3224.28	505.45	3729.73	659.32	4389.05
Total	16376.92	2973.29	19350.21	4514.86	23865.07

The increase in payments of subsidy to indigenous producers over the years is the result of increase in cost of production on account of escalation in prices of raw materials, chemicals and stores, catalysts, spares, salaries and wages, overheads, higher cost of new plants, increase in distribution margin and freight charges (even after allowing for increase in production) because the sale prices were not increased correspondingly.

5.2.7 *Beneficiaries of subsidy*

The percentage shares of category of farms (by size) using fertilizers in the year 1980-81 and the share of fertilizer consumed by them during the years 1975-76 and 1988-89 were as under:-

Farm-size Groups	*Percentage share of gross crop area in 1980-81	**Percentage share of fertilizer consumed(NPK) 1975-76	1988-89	**Fertilizer consumed (per hectare 1975-76	1988-89
				(In Kgs.)	
Marginal farms	13.7	14.9	16.0	28.9	86.3
Small farms	15.1	16.0	15.8	28.1	77.3
Large farms	71.2	69.1	68.2	25.8	71.0
Total	100.0	100.0	100.0		

* Based on Agricultural Census (1980-81).
** Figures estimated by the National Council of Applied Economic Research

From the above, it would appear that though the intensity of fertiliser consumption has increased in all the 3 categories of farm sizes the large (including medium) size farms get on the average nearly 70 per cent of the fertilizer subsidy payments given out by the Government. The share of marginal and small farms (i.e. holdings not exceeding 2 hectares each) on the average is around 30 per cent, indicating that the subsidy on prices of fertilizers does not give any special benefits to marginal and small holdings over the large holdings which consume also nearly 70 per cent of the fertilizers.

5.2.8 Scope of Audit

The records relating to the fixation of retention price and payment of subsidy on indigenous fertilizers during the period 1984-85 to 1989-90 were test checked in audit between April and September 1990 in the Office of Fertilizer Industry Coordination Committee (FICC) and the Department of Fertilizers. The audit findings given below take into account the replies received from the FICC and Department of Fertilizers.

The subsidy paid on imported fertilizers commented upon in Para 4 of the Report of the Comptroller and Auditor General of India for the year 1984-85 was discussed by the Public Accounts Committee. The recommendation of that Committee in its report (167th Report, April 1989 - Eighth Lok Sabha) touched upon service charges paid to the Minerals and Metals Trading

Corporation of India Limited (MMTC) for import of fertilizers being on the higher side. The rise in handling charges paid to various agencies for handling imported non-potassic fertilizers were commented upon in the Action Taken Report of the Public Accounts Committee (January 1991 - Ninth Lok Sabha). The Department of Fertilizers have recently decided (November 1991) to delink the service charges payable to the MMTC from the value of imports, resulting thereby in reduction in the service charges payable to the MMTC. The present review in audit is limited to subsidy paid to indigenous production units.

5.2.9 Highlights

Since inception of the scheme in November 1977 and till March 1991, in all Rs.19350.21 crores were paid to production units as subsidy related to retention price and equated freight. In addition, Rs.4514.86 crores of subsidy on sale of imported fertilizers was borne by Government during the same period.

- **FICC did not independently verify cost data on production of fertilizers which forms the basis for fixation of retention prices. The FICC also did not prescribe maintenance of cost records on a standard basis by the fertilizer industry. The cost data furnished by the fertilizer units was not also checked by the Cost Accounts Branch of the Ministry of Finance or the Bureau of Industrial Costs and Prices (Para 5.2.10).**

- **FICC allowed return on net worth at much higher percentage by assuming that certain amount of tax would be paid and did not ascertain the actual tax paid and regulated the payment of subsidy accordingly. This resulted in avoidable excess payment of subsidy amounting to Rs.103.22 crores to five production units in one year (Para 5.2.11).**

- **How far the excise and custom levies on capital goods raise the capital cost of unit and thereby the retention prices and increased the subsidy** outgo has not been assessed from time to time (Para 5.2.12)

- The increase in the price of inputs to fertilisers units has pushed up the cost of production of fertilizer and thus to increases in the retention prices. Part of the increase was the result of higher margin of profits allowed to MMTC for trading in the inputs out of proportion to margins of profit on other items traded in by MMTC. The Department of Fertilizers has since fixed service charges payable to the MMTC in November 1991 (Para 5.2.13).

- On use of cheaper imported ammonia and phosphoric acid in excess of the mix of imported and indigenous ammonia and phosphoric acid assumed in the fixation of retention prices there was excess outgo of subsidy because of failure of FICC to revise the retention prices. No action was taken by the FICC though units made provision for refunding excess subsidy (Para 5.2.14).

- Selling expenses were not allowed on normative basis in the computation of retention price but on actual expenditure incurred by the units including expenditure on excessive staff and leading to excess outgo of subsidy amounting to Rs.63.55 crores during the years 1988-89 to 1990-91 in respect of 45 plants (Para 5.2.15).

- The FICC did not examine how production could exceed installed capacity and whether the reported installed capacity needed to be re-assessed and the retention prices refixed. The Department of Fertilizers stated that the capacities of units producing fertilizers in excess of their installed capacity was under examination (Para 5.2.16).

- Non-disallowance of items of capital expenditure shown as repair and maintenance charges led to increase in retention price fixed and excess outgo of subsidy in the years 1985-86 and 1986-87. The FICC had not taken any action for recovering excess

subsidy from the units. The Department of Fertilizers stated that action had been initiated for reviewing and effecting recoveries or making payments as the case may be (Para 5.2.17).

- **On sale of sub-standard fertilizers recovery of subsidy paid as for standard fertilizers was not made (Para 5.2.18).**

- **There was backlog in the inspection of the fertilizer units by the FICC (Para 5.2.19).**

- **Subsidy towards equated freight paid to the units was not optimised by rationalising the fertilizer supply plans, so as to reduce the burden of freight subsidy (Para 5.2.20).**

- **Recovery of Rs.119.55 lakhs due from units was not made by the FICC till pointed out in audit (Para 5.2.21).**

- **There was no system of effective internal check in the FICC (Para 5.2.22).**

5.2.10 Inadequate check of cost data by the FICC

Accuracy of cost data relating to fertilizer production in the units is crucial to the fixation of correct retention prices. However, maintenance of cost records has not, so far, been made obligatory for fertilizer industry. Check on cost data in fertilizer units is not being undertaken either by the Cost Accounts Branch of the Ministry of Finance or by the Bureau of Industrial Costs and Prices. The Department stated in May 1991 that it has been proposed to the Department of Company Affairs to notify rules for compulsory maintenance of uniform cost data.

The FICC had been relying on the cost data furnished by the manufacturing units authenticated by Chartered Accountants employed by the units, though one of the main functions assigned to the FICC is to undertake costing and analysis of cost data. FICC has a separate Cost Evaluation Division with one Director, one

Joint Director and an Accounts Officer for this purpose. The Division only works out retention price in respect of nitrogenous and complex fertilizers. The computation of retention price for single super phosphate fertilizer is done in the Finance and Accounts Division of the FICC. That Division also scrutinises claims for subsidy related to retention price and subsidy relating to freight. It also prepares budget for the subsidy payments and periodically inspects the units.

In September 1990 there were 69 nitrogenous and complex fertilizer plants and 83 single super phosphate plants in the country. The work relating to computation and revision of retention prices was in arrears. Out of 561 cases relating to nitrogenous and phosphatic fertilizers, pending in February 1990, 451 cases were pending for more than one year. Non-finalisation of the cases was attributed by the FICC to inadequacy of staff in its Cost Evaluation Division.

5.2.11 Excess payment of subsidy by ignoring actual tax paid

The Retention Price and Subsidy scheme envisaged post-tax return of 12 per cent on net worth in respect of nitrogenous and complex fertilizers and 11 per cent on single super phosphate fertilizers. The FICC allowed a higher return on net worth to the manufacturers by providing for a notional tax outgo for the relevant year, without ever ascertaining the actual tax paid. The return on net worth allowed by the FICC from time to time since April 1982 was more than the perscribed post-tax rate of 12 per cent (11 per cent on single super phosphate) as shown below.

Period	Percentage return on net worth	
	Nitrogenous and complex fertilizers	Single super phosphate
1st April 1982 to 31st March 1985	27.51	25.21
1st April 1985 to 31st March 1988	24.00	22.00
1st April 1988 onwards	25.26	22.00

A High Power Committee was constituted, in April 1983, by the Department of Fertilizers to review, in depth, the retention price and subsidy scheme for indigenous fertilizers. The Committee noted that the fertilizer units in the cooperative sector had not paid any tax and very few other units had been subjected to tax liability. The Committee suggested, in February 1986 that the feasibility of adopting only the prescribed post-tax rate of return in the computation of retention price might be considered. The tax paid was to be considered by Government for allowance after in-depth study. The Working Group on Fertilizers for the Eighth Plan (1990-95) constituted by the Planning Commission stated that instead of allowing a pre-tax return on net worth, it would be appropriate to allow a post-tax return and to exempt fertilizer units from income tax or to compensate them for the tax paid. But the FICC continued to compute the return on net worth assuming a notional tax outgo thereby increasing the outgo of subsidy, without any justification.

The FICC stated (June 1990) that the reasons for allowing return on net worth at higher rates were that retention prices were based on a combination of normative and actual factors and that return on net worth should be computed after allowing for the corporate tax and as per existing procedure the post-tax return was computed irrespective of the actual tax paid. But the FICC could not furnish to Audit the yearwise income tax paid by the fertilizer units.

From details available to audit it was noticed that in 15 plants of five fertilizers units which paid no tax (one unit for 1985-86, 2 units for 1987-88 and 2 units for 1988-89) an amount of Rs.103.22 crores was paid as excess subsidy because of FICC assuming that certain amounts of tax would be paid.

As per an assessment made by the FICC (September 1986), reduction in the rate of return on net worth by one per cent would reduce the burden of subsidy by Rs.35 crores per annum in respect of nitrogenous and complex fertilizers. On the rate of return allowed in excess by

15.51 per cent, 12 per cent and 13.26 per cent during the years 1982-85, 1985-88 and 1988-91 respectively on nitrogenous and complex fertilizers, the average avoidable excess outgo of subsidy would be above Rs.450 crores per annum. The excess outgo of subsidy on single super phosphate fertilizer could not be assessed for want of details of amount of net worth and the tax paid by various production units.

The Department of Fertilizer stated (May 1991) that the entire gamut of the fertilizer subsidy scheme including the manner of computing post-tax return was under the consideration of the Government.

5.2.12 Subsidy outgo vis a vis revenue from taxes and duties on capital goods for fertilizer units

The Economic Administration Reforms Commission and the High Power Committee (1986) had recommended exemption of capital goods needed for fertilizer projects from levy of excise duties and other taxes. According to an assessment made by the FICC in 1987, the duties and taxes on fertilizer plant and machinery and capital goods worked out to about 25 per cent of the cost. The Working Group on Fertilizers for the Eighth Plan observed that the payment of custom and excise duties increases the capital cost of plant and machinery which, in turn, is reflected in the retention price (cost of production) through higher provision of depreciation and interest on borrowings. Thus, the subsidy paid increases and the taxes bring no real benefit to Government.

The Department of Fertilizers stated in May 1991 that it had been taking up every year the question of reduction of customs and excise levies relating to the fertilizer sector. However, the Department of Revenue has not so far been able to accede to the request. The Department is continuing its efforts in this regard. However, no analysis of the increase in subsidy outgo vis a vis the revenue earned by way of excise and custom duties would appear to have been made from year to year.

5.2.13 Profits of MMTC and increased subsidy outgo

According to an assessment made (May 1987) by the Department of Fertilizers, feedstock constitutes 49.6 per cent of the total cost of production in old plants and 31 per cent in new plants at Thal and Hazira. Feedstock generally includes gas, naphtha, fuel oil, coal, rock phosphate, sulphur, sulphuric acid, etc. All the inputs are supplied to the fertilizer units at administered prices fixed by Government or Central or State public sector undertakings. The retention prices for fertilizers increase or decrease as the prices of feedstock increase or decrease. There were sharp increases in the prices of feedstock for fertilizers over the years e.g. price of naphtha increased from Rs.268.42 per tonne in 1973 to Rs.1912.31 per tonne in March 1987; furnace oil from Rs.263.43 per kilo litre in 1973 to Rs.1320.06 per kilo litre in March 1987; rock phosphate (imported) from Rs.574 per tonne in 1983 to Rs.1507 per tonne in March 1990; sulphur (imported) Rs.1526 per tonne in 1982 to Rs.2703 per tonne in December 1990. These increases in prices increased the cost of production of fertilizers, requirement of working capital and provision for interest and led to higher retention prices for fertilizers.

The Economic Administration Reforms Commission observed that key inputs should be supplied to the fertilizer industry at fair and reasonable prices in order to lower the cost of production thereby reducing the quantum of subsidy. The Public Accounts Committee (Eighth Lok Sabha) in its 167th Report recommended, in April 1989, that feasibility of effecting reduction in the the cost of production by adjustment of levies on administered inputs might be explored so that the cost of production does not get unduly inflated thereby requiring payment of more subsidy. The matter was stated to be under consideration of the Department of Fertilizers (May 1991).

Rock phosphate and sulphur are the key raw materials for the manufacture of single super phosphate. The MMTC is the main supplier of the two items. Analysis of the accounts of the MMTC for the years 1986-87 to 1988-89 revealed the following position in respect of turnover and gross profit relating to the above two items vis a vis other items traded by the MMTC.

(Rs. in crores)

Year	Sulphur		Rock phosphate		Other items	
	Turnover	Gross profit	Turnover	Gross profit	Turnover	Gross profit
1986-87	239.70	15.75	144.56	6.23	2397.61	55.38
1987-88	221.14	12.60	151.59	7.48	2521.34	33.07
1988-89	308.38	13.58	243.51	8.89	3328.08	67.19

Analysis of total turnover and gross profit earned on all the commodities handled by the MMTC during the years 1986-87 to 1988-89 vis a vis raw materials for fertilizer, revealed that the percentage of gross profit earned on turnover of raw materials for fertilisers was more than that earned on other commodities handled by MMTC and was as under:

(in per cent)

Year	Gross profit on turnover of all commodities	Gross profit on turnover of raw materials for fertilisers	Gross profit on turnover of commodities other than raw materials for fertilizers
1986-87	2.78	5.72	2.31
1987-88	1.84	5.39	1.31
1988-89	2.31	4.07	2.02

The total profit of the MMTC, before provision for tax, during the years 1986-87, 1987-88 and 1988-89 was Rs.54.85 crores, Rs.38.01 crores and Rs.69.08 crores respectively.

Thus it would be evident that gross profit earned by the MMTC was to a large extent contributed by the payments made by the fertilizer units and all of it went to increase the retention price and the subsidy outgo.

The MMTC stated in July 1991 (without furnishing the details of amount which were to be deducted from the gross profit so as to arrive at the net profit) that in fixing the selling prices of raw materials for fertilizer some estimation was done of the elements of costs (like the expected exchange rate on the date of payment for the raw materials, freight, overhead expenses, interest) allocable to the raw materials for fertilizers.

The Department of Fertilizers stated (May 1991) that the need for reduction in prices of inputs like gas, naphtha, etc. had been put across by it consistently in all fora where the prices of inputs were finalised. As regards the profits of the MMTC going to increase the subsidy outgo, the Department stated that the point made by Audit would be kept in view while considering service charges payable to the MMTC. The Department of Fertilizers had fixed service charges payable to the MMTC in November 1991.

5.2.14 Payment of excess subsidy and its non-recovery

The FICC assumed a certain mix of indigenous and imported ammonia and phosphoric acid in the various units while fixing the retention prices. Assumptions on the mix of indigenous and imported materials were not modified with reference to the actual usage. Rise and fall in prices of these materials from time to time were taken into account, but for the same mix as originally assumed.

Scrutiny of records of the FICC revealed that in two fertilizer units, the actual mix of indigenous and imported ammonia and phosphoric acid differed from the mix assumed by the FICC orginally when fixing the retention price. Since the prices of imported ammonia and phosphoric acid were, generally, lower than prices of indigenous ones, higher proportion of imported inputs in the mix than assumed in the fixation of retention price resulted in payment of excess subsidy to the two units. Information on such excess subsidy paid and the recovery thereof was called for in audit (April 1990), but has not been furnished so far (December 1991). It was, however, noticed that Rs.9.21 crores of excess subsidy paid to one unit during the period April 1982 to March 1985 was recovered by the FICC. But the amount of excess subsidy paid after March 1985 was not determined or recovered. The unit in its annual account for 1988-89, however, made a provision for refunding Rs.24.23 crores arising out of use of imported phosphoric acid in excess of the mix adopted in fixation of retention price. But the FICC had taken no action (May 1991) to recover the amount on the plea of inadequate staff.

Test check of records, revealed that four other fertilizer units also used imported as well as indigenous ammonia and three other units used both imported and indigenous phosphoric acid. The FICC took no action to verify the extent of excess subsidy paid to these units. As to the reasons for not taking action for streamlining the procedure for timely determination of such excess payment of subsidy, the FICC stated (June 1990) that the streamlining of the procedure would be considered as and when adequate staff was available.

5.2.15 Excessive allowance for selling expenses

Selling expenses comprise expenditure on market development, promotion, publicity, wages of staff, storage and handling of fertilizers in the field, etc. Such expenses incurred during the preceding year were taken into account in fixing the retention price of nitrogenous and complex fertilizers. On salaries and wages, a step-up of five per cent per annum over past actuals was allowed to take care of inflation during the 'pricing period'. Provision for advertisement and product promotion was made on the basis of the average of such expenses incurred during the preceding 'pricing period'. Provision for warehousing was made on a normative basis assuming two months' storage of urea and three months' storage of complex fertilizers.

The selling expenses, per tonne, allowed to 20 units (49 plants) in the above manner varied between Rs.32.73 per tonne and Rs.95.82 per tonne during the period April 1985 to March 1988 and between Rs.44.01 per tonne and Rs.127.63 per tonne from April 1988 onwards.

The rate of Rs.44.01 per tonne had been allowed by the FICC to a large Public Sector unit producing and marketing large quantities of fertilizers. Wide variations over the figure of Rs.44.01 were the result of allowing the actual selling expenses incurred by the units during the relevant period preceding the pricing period to be included in computation of retention price. Allowing the actual expenses without normative limits on selling expenses was not conducive to encouraging economy in the selling expenses incurred by the units. If the lowest rate of selling expenses allowed at Rs.44.01 per tonne to four plants of one of the large-size unit had been adopted as the norm, the annual saving in payment of subsidy would have amounted to Rs.63.55 crores in respect of the remaining 45 plants of 19 units, during the period from 1988-89 to 1990-91.

The staff engaged in the marketing wings of six units producing nitrogenous and complex fertilizers varied widely between 0.26 and 1.20 employees per thousand tonnes of fertilizer sold during 1985-86. It varied between 0.29 and 1.17 during 1986-87 and between 0.34 and 1.05 during 1987-88. The FICC stated (February 1989) that there was scope for following a normative approach in allowing selling expenses in computation of retention prices, in view of the wide variation in selling expenses allowed to the units. The Department of Fertilizer stated (May 1991) that scope for adopting normative selling expenses would be gone into while formulating the policy for the sixth pricing period begining from 1st April 1991

Selling expenses in respect of single super phosphate were allowed on a normative basis. These expenses were included under 'fixed charges', comprising salaries and wages, power and fuel, administrative expenses and overheads, etc. The Chief Cost Accounts Officer, Ministry of Finance had allowed Rs.30.90 per tonne in 1966 as 'other fixed cost' (excluding power and fuel components) in determining the ex-factory price. The element of selling expenses included under this head was Rs.2.14 per tonne. But the provision for 'other fixed cost' was increased from time to time based on the increase in wholesale price index and fixed at Rs.171.34 per tonne from April 1988. The corresponding element for selling expenses included in it would proportionately increase to Rs.11.87 per tonne. The norm was not refixed after 1966 but was only extrapolated without ascertaining and fixing minimum allowable cost.

5.2.16 Installed capacity not reassessed

The Retention Price and Subsidy scheme provided for prescribing the extent of utilisation of installed capacity. Till March 1988, the capacity utilisation prescribed as percentage of installed capacity was 80 for ammonia plants using ammonia, 60 for plants based on coal and 70 for plants using phosphoric acid.

From April 1988, capacity utilisation prescribed for plants manufacturing nitrogenous, complex and single super phosphate fertilizers varied between 60 and 90 per cent of the installed capacity.

Test check of records revealed that in the case of nine fertilizer plants, the capacity utilisation during the years 1986-87 and 1989-90 ranged between 120.8 and 183.00 per cent of the installed capacity. The FICC did not furnish information whether they had examined the circumstances under which production could be so much in excess of the installed capacity and whether installed capacity needed to be re-assessed and retention price refixed. The Department of Fertilizer stated (May 1991) that the cases of units producing fertilizer in excess of their installed capacity were under examination.

5.2.17 Non recovery of excess subsidy paid towards repairs and maintenance

From time to time the FICC adopted different methods for allowing repairs and maintenance charges in the retention price.

The Department of Fertilizers asked the FICC, in December 1987, to review the allowance for repairs and maintenance charges and to exclude items of capital expenditure therefrom. On review, the FICC noticed

(February 1989) that exclusion of items of capital nature from repairs and maintenance charges resulted in reduced retention prices. Records relating to the review together with results thereof were called for (September 1990) but were not furnished to Audit.

Annual accounts of one unit for 1988-89 revealed that provision for refunding Rs.10.05 crores to the FICC had been made because of likely disallowance of certain items of capital expenditure included in repair and maintenance charges for the years 1985-86 and 1986-87. On enquiry in audit regarding the action taken for realising the amount due from the unit, the FICC stated (May 1990) that the details of capital expenditure or provision made were not known to FICC and that recoveries, if any, would be made in due course. The Department of Fertilizers stated (May 1991) that action had already been initiated for reviewing and effecting payments or recoveries, as the case may be.

5.2.18 Non recovery of subsidy paid on non-standard fertilisers

The Fertilizer (Control) Order 1957, inter alia, stipulates that non-standard fertilizers shall not be manufactured or sold. For enforcement of quality, inspectors draw samples of fertilizers for analysis. Sale of non-standard fertilizers attracts penal action under Essential Commodities Act, 1955. The Central and State Governments have set up quality control laboratories.

Out of 3,08,014 samples drawn for analysis, 26,351 samples were found to be non-standard during the years 1985-89. Specific information on the number of samples drawn from manufactures' premises, ware-houses and godowns and the number of samples found to be non-standard and the gross quantities represented by the samples were not furnished (May 1991) by the Department of Agriculture and Cooperation though called for by Audit.

There was no system in the FICC till November 1989 for obtaining information relating to non-standard fertilizers produced or sold by the manufacturing units based on investigations made by Central and State Governments. Subsidy paid on non-standard fertilizers was also not recovered. The FICC stated (August 1990) that the State Governments had been asked to send monthly reports on fertilizers found to be non-standard, from 1989-90 in respect of single super phosphate and from 1990-91 in respect of other types of fertilizers.

5.2.19 Failure to inspect fertilizer units

Inspection parties of the FICC are required to fertilizer units at least once a year to verify payments and recoveries made under the subsidy scheme. But 56 units were not inspected in 1987-88, 109 units in 1988-89 and all the 111 units in 1989-90.

Inspections did not cover important aspects like verification of the data furnished by the units for fixation of retention price by reference to initial records, usage of cheaper imported ammonia and phosphoric acid in substitution of indigenous material, etc. They have commented upon routine procedural deviations.

5.2.20 Avoidable freight subsidy payments

Equated Freight Scheme for nitrogenous and complex fertilizers covers transportation cost upto block headquarters and for single super phosphate fertilizers upto rail head or field godown. Movement of fertilizers is regulated by the Department of Agriculture and Cooperation through supply plans drawn up under the Essential Commodities Act (ECA), 1955. The equated freight rates for each unit are worked out on the basis of supply plans and normative lead distances fixed for movement by rail and road.

During test check of records of six units it was observed that freight incurred by units was less than the subsidy towards transportation cost allowed during the years 1983-84 to 1985-86 by Rs.13.67 crores. However, during the years 1986-87 and 1987-88 the actual cost had gone up over the amount as per norm by Rs.36.48

crores. The Working Group on Fertilizers for the Eighth Plan observed (August 1989) that there was scope to eliminate avoidable movements of fertilizers (which leads to more expenditure and the fixation of higher norms than necessary). More and more plants had come up or were coming up in high consumption areas. The average lead distance for transportation of urea during the years 1980-81 to 1988-89 was as under:

Year	Rail lead for urea (kms)
1980-81	800
1981-82	730
1982-83	660
1983-84	620
1984-85	682
1985-86	725
1986-87	804
1987-88	843
1988-89	746

Average lead distance for rail movement for urea produced indigenously declined from 800 Kms. in 1980-81 to 620 Kms. in 1983-84 and increased to 843 Kms. in 1987-88. It again declined to 746 Kms. in 1988-89.

It was noticed from the records of the FICC that under the supply plan for 1987-88, the Department of Agriculuture and Cooperation allocated fertilizers to a number of units in a State, which were located at widely varying distances, as under:

Name of State	Number of units to whom allocation was made	Lead (in Kms) Minimum	Lead (in Kms) Maximum
Andhra Pradesh	10	433	1551
Bihar	9	110	1776
Karnataka	6	370	1411
Madhya Pradesh	12	286	1396
Punjab	9	196	1503
Uttar Pradesh	13	255	1654

The position indicated above would suggest that there is scope for rationalising movement of fertilizers so as to reduce the burden of freight subsidy.

A group was consitituted in October 1988 by the Department of Fertilizers to suggest long term perspective for fertilizer distribution pattern. The report of the group was awaited (May 1991).

5.2.21 Delay in recovery of amounts due

Subsidy paid to some units becomes recovereable due to factors like, downward revision of retention prices and freight subsidy retrospectively, quantities lost in transit, supply of fertilizers in excess of allocation, etc. The FICC, however, did not watch the recovery of dues from the units.

During test check in audit, it was noticed that, in 19 cases, Rs.119.55 lakhs (including Rs.50.92 lakhs in 13 cases pertaining to the years 1984-85 to 1988-89) remained to be recovered, till July 1990. When pointed out in audit, the FICC recovered Rs.68.57 lakhs in August/September 1990 and Rs.50.98 lakhs were stated (May 1991) to have been recovered since then.

The FICC stated (August 1990), that "recoveries due are now noted in the demand register maintained for the purpose".

5.2.22 Lack of effective internal check

The tasks of fixations of retention price for single super phosphate, the payment of subsidy and the inspection of the units are entrusted to the Finance and Accounts Division headed by a Joint Director in the FICC. Within the Division, these tasks were all entrusted to the same group of officials, instead of entrusting them to different groups of officials with a view to have cross checks. The reports on inspection or internal audit, if any, carried out by other groups of the FICC or by the Department of Fertilizers during the years 1984-85 to 1988-89 were called for (June 1990) by Audit but none were furnished (September 1990). In the circumstances there would seem to be no internal check within the FICC or the Department.

CHAPTER VI

Department of Civil Aviation

6. Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Department (Grant No. 6) amounted to Rs.3.38 crores and Rs.70.54 crores respectively. After adjusting the recoveries the amounts brought to account in Finance Accounts were Rs.3.38 crores and Rs.69.23 crores respectively.

The progressive capital outlay, as at 31st March 1991, on Civil Aviation is given below under respective capital major heads of account. The outlay should generate revenues and returns to Government. The revenue expenditure and revenue receipts in 1990-91 under the corresponding revenue heads of account are given alongside. The component of outlay invested in identifiable organisations or undertakings (whether declared commercial or not), Public Sector Undertakings and Cooperatives are given below within brackets. N.A. indicates information has not been made available in the accounts, though required to be given in some cases. The Chief Accounting Authority of the Department would need to take follow up action for getting wanting information in accounts and improving returns from capital outlays and investments. He may also need to drop from the progressive capital outlay the expenditures which are not correlatable to any assets on the register of assets, physical or financial and cannot also be truly entered in the register of asset to rectify omissions. Action has also to be taken to declare activities identifiable as "Departmental Undertakings" and those which should make profits as "Departmental Commercial Undertakings". All Public Sector and other Undertakings, cooperatives and Departmental Commercial and non-Commercial Undertakings need to be listed in Statement No.11 of the Finance Accounts indicating the capital invested in them and the return realised from them.

(Rupees in crores)

Sl. No.	Major Head	Progressive Capital Outlay as at the end of 1990-91	1989-90	1988-89	Revenue Expenditure 1990-91	Revenue Receipts 1990-91
1.	2.	3.	4.	5.	6.	7.
1.	5053-Capital Outlay on Civil Aviation	572.88	569.51	560.91	25.63 (Head-3053)	0.67 (Head-1053)
	(5053-02-102 Aerodromes)	(355.75)	(423.15)	(415.75)	--	(NA)
	(5053-02-190 Investments in Public Sector and other Undertakings)	(16.78)	(15.50)	(8.10)	--	(NA)
	(Air India)	(74.36)	(74.36)	(74.36)	--	(NA)
	(IAC)	(50.04)	(50.04)	(50.04)	--	(NA)
	(IAAI)	(61.12)	(61.12)	(61.12)	--	(NA)
	(National Airport Authority)	(7.03)	(5.75)	(3.25)	--	(NA)
	(Helicopter Corporation of India Ltd.)	(65.54)	(65.64)	(65.64)	--	(NA)
	(Vayudoot Ltd.)	(9.75)	(9.75)	(4.85)	--	(NA)

The loans and advances given and outstanding as at 31st March 1991, for Civil Aviation, are also given below, as indicated in statement no.15 of the Finance Accounts. The components of loan given to identifiable organisation or undertaking are given below within brackets. The interest recovered will need to be given in the statement against, loans under each minor head separately, in future, in addition to the interest on loans under the major head. Against some of the loans very little or no recovery has been made in the last three years and interest recovered is also relatively meagre. In statement No.3 of Finance Accounts, Ministry/ Departmentwise and loaneewise, some of the loans outstanding and amounts of instalments overdue for recovery, both need to be given in the statement, in future. The Chief Accounting Authority in the department will need to take follow up action for getting wanting information and effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loanee wise details given in statement no.3 all the Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

Sl. No.	Head of Account	Amount of loan outstanding as on 31.3.91	Loan Recoveries during			Interest received during		
			1990-91	1989-90	1988-89	1990-91	1989-90	1988-89
1.	7053-Loans for Civil Aviation -190 Loans to Public Sector and other Undertakings	214.00	2.33	3.28	3.40	14.47	15.67	16.41

CHAPTER VII

Ministry of Commerce

7.1 Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Department (Grant No.7) amounted to Rs.1687.12 crores and Rs.2870.98 crores respectively. After adjusting the recoveries the amounts brought to account in Finance Accounts were Rs.1687.12 crores and Rs.2870.98 crores respectively.

The progressive capital outlay, as at 31st March 1991 on Plantations and Foreign Trade and Exports is given below under respective capital major heads of account. The outlay should generate revenues and returns to Government. The revenue expenditure and revenue receipts in 1990-91 under the corresponding revenue heads of account are given alongside. The component of outlay invested in identifiable organisations or undertakings (whether declared commercial or not), Public Sector Undertakings and Cooperatives are given below within brackets. N.A. indicates information has not been made available in the accounts. The Chief Accounting Authority of the Department would need to take follow up action for getting wanting information in accounts and improving returns from capital outlay and investments. He may also need to drop from the progressive capital outlay the expenditures which are not correlatable to any assets on the register of assets, physical or financial, and cannot also be truly entered in the register of asset to rectify ommissions. Action has also to be taken to declare activities identifiable as "Departmental Undertakings" and those which should make profits as "Departmental Commercial Undertakings". All Public Sector and other Undertakings, cooperatives and Departmental Commercial and non-Commercial Undertakings need to be listed in Statement No.11 of the Finance Accounts indicating the capital investment in them and the return realised from them.

(Rupees in crores

Sl. No.	Major Head	Progressive Capital Outlay as at the end of 1990-91	1989-91	1988-89	Revenue Expenditure 1990-91	Revenue Receipts 1990-91
1.	2.	3.	4.	5.	6.	7.
1.	4407-Capital Outlay on Plantations	17.65	17.65	17.65	54.07 (Head 2407)	NA
	(4407-01 Tea)	(1.86)	1.86	1.86	(13.90) (Head 2407-01)	(NA)
	(4407-03 Rubber)	(15.69)	15.67	15.67	(27.75) (Head 2407-03)	(NA)
2.	5453-Capital Outlay as Foreign Trade and Export Promotion.	106.42	98.90	89.35	2810.82 (Head-3453)	NA
	(5453-01-KFTZ)	(11.26)	(9.87)	(9.21)		
	(5453-02-San)	(6.00)	(5.00)	(1.50)		
	(5453-04-FALTA-EPZ)	(11.62)	(11.12)	(10.15)		
	(5453-05-MADRAS EPZ)	(9.73)	(9.04)	(9.37)		
	(5453-06-COCHIN EPZ)	(6.12)	(5.27)	(4.77)		
	(5453-07-NOIDA-EPZ)	(16.72)	(14.63)	(10.88)		
	(5453-08-NEW EPZ)	(44.97)	(43.98)	(43.48)		
	(Cardamom Trading Corporation)	(1.5)	(1.50)	(1.50)		Nil
	(Export Credit Guaranter Corporation)	(50.00)				Nil (Loss of Rs.9.10 crores upto 1988-89)
	(MMTC)	(35.00)	(35.00)	(35.00)		Dividend (7.00) (for 1989-90)
	(STC)	(15.00)	(15.00)	(15.00)		Dividend (6.00) (for 1989-90)
	(Trade Fair Authority)	(0.25)	(8.35)	(8.35)		Nil (Section 25 Company giving no dividends
	(Tea Trading Corporation)	(8.35)				Nil
	(Hindustan Diamonds Company Ltd.)	(0.17)	(0.17)	(0.17)		

The loans and advances given and outstanding as at 31st March 1991, for Planation Trade and Export promotion etc. are also given below, as indicated in statement no.15 of the Finance Accounts. The components of loan given to identifiable organisation or undertaking are given below within brackets. NA indicates that information has not been made available in the accounts though required to be given. The interest recovered will need to be given in the statement against, loans under each minor head separately, in future, in addition to the interest on loans under the major head. Against some of the loans very little or no recovery has been made in the last three years and interest recovered is also relatively meagre. In statement no.3 of Finance Accounts, Ministry/Departmentwise and loaneewise, some of the outstanding loans and interest are indicated; but information is not complete. Also the amounts of loans outstanding and amounts of instalments overdue for recovery, both need to be given in the statement, in future. The Chief Accounting Authority in the department will need to take follow up action for getting wanting information and effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loanee-wise details given in statement no.3 all the Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

(Rupees in crores)

Head of Account	Amount of loan outstanding as on 31.3.91	Recoveries during			Interest recovered during		
		1990-91	1989-90	1988-89	1990-91	1989-90	1988-89
6407-Loan for Plantations	64.48	4.53	6.80	3.55	5.24	5.06	3.98
(6407-01-190 Loans to Public Sector and other Undertakings-Tea)	(0.19)	(Nil)	(Nil)	(Nil)	(NA)	(NA)	(NA)
(6407-01-800-other Loans for tea)	(29.90)	(3.12)	(4.58)	(1.56)	(NA)	(NA)	(NA)
(6407-02-Loan for Coffee)	(34.06)	(1.37)	(2.20)	(1.99)	(NA)	(NA)	(NA)
(6407-04 Loans for Cardamom)	(0.33)	(0.04)	(0.01)	(NA)	(NA)	(NA)	(NA)

7.2 Adjustments to be made in Finance Accounts

In the balances at the end of 1990-91 which are reflected in the Finance Accounts the adjustments or review of the balances under the following heads of account need to be made by the Chief Accounting Authority in the Ministry/Department as indicated in the remarks column.

(Rupees in thousands)

Heads of Account	Balance as at the end of				Remarks
	1990-91	1989-90	1988-89	1987-88	
8443-Civil Deposits 114-Export Trade Deposits	15,25,27 (Cr.)	15,25,27 (Cr.)	15,25,27 (Cr.)	15,25,27 (Cr.)	The reasons for non-use of the deposits and the nature of the deposits need to be looked into.

7.3 Export Assistance

7.3.1 Introduction

The Ministry of Commerce comprises two departments viz. Department of Commerce and Department of Supply. The Department of Commerce is responsible for the Country's external trade, commercial relations with other countries, state trading, export promotional measures and the promotion, development and regulation of certain export oriented industries and commodities.

The expenditure incurred by the Department of Commerce on its various activities during the years 1987-88 to 1990-91 were as under:

(Rs. in crores)

	Ministry of Commerce (Deptt. of commerce)	1987-88 (Actuals)	1988-89 (Actuals)	1989-90 (Actuals)	1990-91 (Provisional)
A.	Total Expenditure	1203.95	1624.45	2954.29	4558.10
B.	Major Components of Expenditure				
(a)	Department of Commerce				
(1)	Foreign Trade and Export Promotion				
	(i) Assistance for Export Promotion and Market Development	962.11	1385.80	2014.33	2741.53
	(a) Product Promotion and Commodity Development(CCS)	901.81	1268.68	1780.16	2473.65
	(b) Grant-in-aid to Export Promotion and Market Development Organisation	15.30	15.12	15.92	17.84
	(c) Export Credit Development	45.00	102.00	218.25	250.04
	(ii) Development of Free Trade/Export Processing Zones	11.83	14.24	14.07	11.83
	(iii) Trade Fair Authority	10.50	11.60	13.90	13.81
	(iv) Payment to Foreign Government in terms of Trade and Payment agreements				
	(i) Technical credits	100.03	52.76	760.80	1671.82
	(v) Others	42.03	71.55	86.50	51.15
	Total Foreign Trade and Export Promotion	1126.50	1535.95	2889.60	4490.14

(2) Plantations				
(i) Commodity Boards (Tea, Rubber, Coffee and Spices)	51.30	55.13	59.05	61.37
(ii) Others	0.46	0.55	0.56	0.48
Total Plantations	51.76	55.68	59.61	61.85
(3) Crop Husbandry				
(i) Tobacco Board	1.26	3.27	-	1.32
(ii) Others	0.05	0.08	-	-
Total Crop Husbandry	1.31	3.35		1.32
(4) Investment in Public Enterprises	20.50	25.00	-	-
(5) Secretariat Economic Services	3.88	4.47	5.08	4.79
Total Department of Commerce	1203.95	1624.45	2954.29	4558.10

Source: Appropriation Accounts, Ministry of Commerce.

The assistance rendered for Export Promotion and Marketing Development, by way of product promotion and commodity development i.e. Cash Compensatory Support, accounted for the major part of the expenditure of the Department of Commerce.

7.3.2 Rationale for export incentives

The objective of the Government is to promote exports but in such a manner that the economy of the country is not affected by unregulated exports of items essentially needed within the country. A Report of a Committee on Trade Policies stated (December 1984) that the route to a quantum jump in exports lies in "growth led exports" and production for export must constitute an integral part of domestic production.

Reviewing the export performance, the Public Accounts Committee in para 2.10 of the twenty fourth report (4th Lok Sabha 1967-1971) recommended that the Ministry of Commerce in consultation with the Ministry of Finance (Department of Revenue) should study selected commodities exported, their cost of production, fob value, price in India, draw-back paid, cash assistance paid and import entitlement allowed. No such study was made available to audit.

On inquiry, in audit, whether any analysis had been made to determine the cost to Government in earning one dollar of net foreign exchange because of paying export incentives and to establish a linkage between the export incentives and increase in exports, the Ministry stated in May 1990 that no such analysis had been done. Ministry stated in January 1992 that a study was entrusted to the Indian Institute of Foreign Trade (IIFT) on the cost benefit analysis of CCS, and report was still awaited.

7.3.3 Export Incentives

Government has been allowing the following export incentives:

(i) Cash Compensatory Support (CCS): It is intended to compensate the exporter for indirect taxes and duties paid on the inputs going into exported product as have not been refunded. Elements of cost of developing the product and an export market as also freight disadvantage vis-a-vis competing exporters from other countries may also be taken into account. This support was abolished from 3rd July 1991.

(ii) Duty draw back: It is the refund of the import duty and excise duty paid on the exported product.

(iii) Import licences with Duty exemption or as Imprest or as Replenishment (REP) of imports used in exports: Such import licences described variously as advance licences, intermediate advance licences, special imprest licences, imprest licences and replenishment licences are issued to registered exporters to enable them to import raw materials and components at international prices to make their exports price competitive.

(iv) International Price Reimbursement (IPR): Under this the difference between international price of materials e.g. aluminium, steel and pig iron consumed in manufacturing the exported products and the domestic price of such metals used is paid to the exporter, where the domestic price is higher.

(v) Export Credit Development: Cost of pre-shipment and post shipment finance is reduced by giving credit at concessional rate of interest through banks. The Export Credit and Guarantee Corporation also affords protection to exporter against fluctuation in exchange rates. Losses, if any, are made good to the corporation by Government. This forward exchange cover guarantee scheme has been extended to cover exchange rate variation affecting the buyer's credit and deferred payment credits obtained by the exporters for exporting. The export credit (interest susbsidy) was abolished from 5th August 1991.

(vi) Income tax relief: On profits arising from exports income tax relief is allowed under the Income Tax Act.

(vii) Grant-in-aid: It is allowed to Export Promotion Councils and such other Institutions to meet expenditure incurred on developing markets for Indian products and commodities abroad e.g. market research, commodity research, export publicity, foreign trips for study or to attend trade fairs and exhibitions, cost of offices and branches abroad.

7.3.4 Policy incentives

During the years 1985-90 the import-export policy was announced for a period of three years instead of on an annual basis to impart continuity and stability in planning, production and exports in longer perspective. A Scheme known as the Import Export Pass Book was introduced for manufacturer exporters to provide duty free access to imported inputs for export production. The scope of items under open general licence was enlarged. The period for discharge of export obligation on advance licences was raised from six months to twelve months for machinery and turn key projects. The eligibility limits for export house and trading house was reduced to Rs.2 crores and Rs.10 crores of net foreign exchange earnings from Rs.3 crores and Rs.15 crores respectively. The incentives available to them were improved.

7.3.5 Scope of Audit Review

This audit review covers the transactions relating to export promotion measures during the Sixth and Seventh Five Year Plans, specially in the two thrust areas of Engineering and Leather goods and payment of CCS. The results of the review are given below:

7.3.6 Export performance

(i) From 1981-82 to 1988-89 the country's exports, excluding defence stores, registered a growth of 160 per cent in rupee terms and 61 per cent in dollar terms (Table 1). Despite the export promotional measures, which took into account prices of competitors, the country's share in the world trade declined from 0.6 per cent in 1970 to 0.4 per cent in 1986 (Table 2). During the years 1980 to 1985 it ranged between 0.4 to 0.5 per cent of World's total exports.

(ii) Analysis of the composition of exports revealed that there was shift from traditional items to non-traditional items which accounted for 47.73 per cent of the total exports in 1983-84 and 69.87 per cent in 1988-89. Eight areas (Table 3) accounted for more then 50 per cent of the exported value in recent years. Fifteen thrust sectors identified for exports by Government contributed 70 to 80 per cent of total exports during the years from 1985-86 to 1988-89. A large number of products were covered in each sector (Table 4). But the growth rate in some of the thrust sectors, remained marginal while in Tea and Wheat, the trade, in fact, declined. This indicated that some of the thrust sectors, did not exhibit a thrust.

(iii) Imports, excluding defence stores, increased from Rs.13607.55 crores in 1981-82 to Rs.28193.65 crores in 1988-89, an increase of 107.19 per cent. In dollar terms, however, the increase was 28.30 per cent because of the devaluation of the rupee by Rs.5.51 per dollar (Table 1). Nearly 50 per cent of the total imports during the years 1987-88 and 1988-89 was accounted for by five items viz machines, precious stone, chemicals, Iron and steel, vegetable oils (Table 5). The export earnings were not enough to finance even the non-petroleum imports.

TABLE 1

(Referred to in para 7.3.6(i)

Growth rate of exports/imports in terms of rupees and dollars

Year	Exports (Rs. crores)	Percent Variation	Average rate of exchange of $ Rs.	Exports in $ crores	Percent Variation
1981-82	7805.91		8.968	870.42	
1984-85	11743.68	+ 20.2	11.889	987.78	+ 4.51
1985-86	10894.59	- 7.2	12.235	890.44	- 9.8
1986-87	12451.95	+ 14.3	12.778	974.48	+ 9.4
1987-88	15741.23	+ 26.4	12.966	1214.04	+ 24.6
1988-89	20295.15	28.9	14.482	1401.40	+ 15.4

Year	Imports (Rs. crores)	Percent Variation	Average rate of exchange of $ Rs.	Imports in $ crores	Percent Variation
1981-82	13607.55		8.968	1517.34	
1984-85	17134.20	+ 8.2	11.889	1441.18	- 5.8
1985-86	19657.69	+ 14.7	12.235	1606.68	+ 11.5
1986-87	20095.76	+ 2.2	12.778	1572.68	- 2.1
1987-88	22243.75	+ 10.7	12.966	1715.54	+ 9.1
1988-89	28193.65	+ 26.7	14.482	1946.81	+ 13.5

Source i) DGCIS Calcutta as incorporated in the Annual Reports of Ministry of Commerce

ii) Economic Survey 1988-89, 1989-90

TABLE - 2

(Referred to in para 7.3.(i)

India's Share in World Exports

Value in US Million Dollars

Year	World total exports	India total exports	India's share (percent)
1970	313706	2026	0.6
1980	1989867	8378	0.4
1981	1976733	8373	0.4
1982	1845641	8807	0.5
1983	1811600	8713	0.5
1984	1903772	8793	0.5
1985	1926536	8750	0.5
1986	2117343	9187	0.4

Source: (1) Hand Book of Industrial Statistics 1988
(2) Economic Survey 1989-90

TABLE 3

(Referred to in para 7.3.6(ii)

India's exports of some principal commodities

(Rs. Crores)

Sl.No.	Major Commodity head	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
1.	Marine Products	359.32	381.37	408.98	538.97	525.11	632.50
2.	Iron ore	401.57	459.44	578.80	546.61	542.76	672.50
3.	Cotton fabrics, yarn and made ups	420.94	609.80	573.67	637.25	1063.78	1131.30
4.	Readymade garments	691.94	919.23	1067.04	1330.51	1792.06	2097.53
5.	Leather and Leather manufacture	463.16	675.43	769.91	922.41	1148.52	1489.50
6.	Basic chemicals	277.71	465.02	468.50	545.88	774.29	1436.91
7.	Gem and Jewellery	1294.13	1237.07	1502.65	2074.31	2613.50	4398.99
8.	Engineering goods	755.16	880.25	954.10	1132.73	1433.04	2321.66
A	Total of 8 items above	4563.93	5627.61	6323.65	7728.67	9893.06	14180.89
B	Total exports	9770.71	11743.68	10894.59	12451.95	15741.23	20295.15
	Percentage of A to B	47.73	47.92	58.04	62.06	62.84	69.87

Source: Annual Reports Ministry of Commerce.

India's Share in World Exports

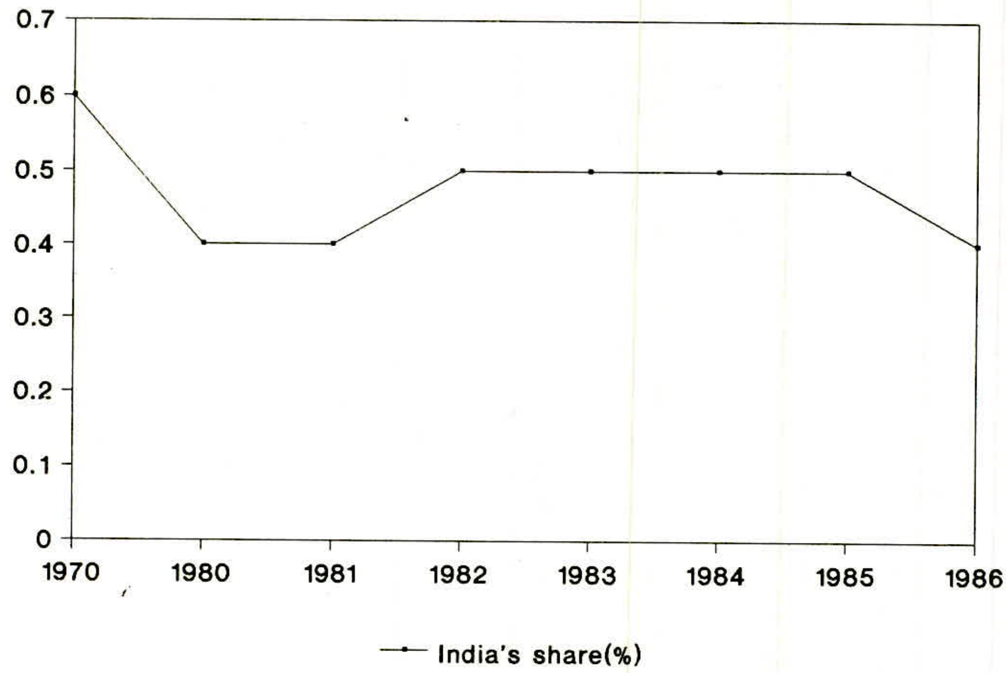


TABLE 4

(Referred to in para 7.3.6(ii)

List of Thrust Sectors and their exports

(Rs. Crores)

	1984-85	1985-86	1986-87	1987-88	1988-89
1. Tea especially in packages and value added forms	766.69	626.27	576.78	592.37	598.96
2. Cereals, in particular Wheat					
(Wheat)	11.48	45.86	34.71	35.46	2.99
(Rice)	169.19	196.32	197.33	324.57	331.47
3. Processed foods including fruits & Juices meat and meat products and fresh fruits & vegetables.					
(i) Fruits & Veg.	183:13	123.97	155.82	150.79	164.40
(ii)Meat & Meat Products	82.50	73.81	75.46	85.54	94.47
4. Marine products, especially in value added forms	381.37	408.98	538.97	525.11	632.50
5. Iron ore	459.44	578.80	546.61	542.76	672.50
6. Leather & leather manufactures with an emphasis on the latter	675.43	769.91	922.41	1148.52	1489.50
7. Handicrafts & Jewellery					
(i) Gem & Jewellery	1237.07	1502.65	2074.31	2613.50	4398.99
(ii) Others	159.74	146.04	190.55	248.38	325.62
	258.66	232.75	282.72	391.43	469.56
8. Capital goods & consumer durables] 9. Electronics goods and computer software]	880.25	954.10	1132.73	1433.04	2321.66
10.Basic chemicals	465.02	468.50	545.88	774.29	1436.91
11.Fabrics,piece-goods and made-ups	609.80	573.67	637.25	1063.78	1131.30
12.Readymade garments	919.23	1067.04	1330.51	1792.06	2097.53
13.Woolen fabrics and Knitwear	5.85	8.49	6.81	6.91	22.80

14.Projects and Services	N.A.	N.A.	N.A.	N.A.	N.A.
15.Granite	53.34	51.43	60.00	90.00	120.00
A. Total Above	7318.19	7828.59	9308.85	11818.51	16311.16
B. Total exports	11743.68	10894.59	12451.95	15741.23	20295.15
Percentage of A to B	62.32	71.86	74.76	75.08	80.37

Source : Annual Reports Ministry of Commerce

TABLE 5

(Referred to in para 7.3.6(iii)

India's imports of some principal commodities

(Value Rs. Crores)

Sl.No.	Major Commodity head	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
1.	Vegetable oil, fixed (edible oil)	734.05	921.07	734.66	611.96	968.77	727.01
2.	Organic and inorganic chemicals	659.88	856.65	1089.41	1035.67	1081.82	1939.84
3.	Pearls precious stones and semi precious stones	1097.94	1032.11	1099.67	1495.48	2018.44	3175.21
4.	Iron and Steel	1048.67	941.10	1394.60	1449.69	1319.71	1937.26
5.	Machinery electric and non-electric	2726.66	2658.23	3515.27	4591.35	5645.22	5978.92
A	Total imports of 5 items above	6267.20	6409.16	7833.61	9184.15	11033.96	13758.24
B	Total imports into the country	15831.46	17134.20	19657.69	20095.76	22243.74	28193.65
	Percentage of A to B	39.58	37.41	39.85	45.70	49.60	48.80

Source: Annual Reports, Ministry of Commerce.

(iv) Annual trade deficit has been a continuing feature of India's foreign trade (Table 6) for the last 12 years. The annual trade deficit increased from Rs.5390.52 crores in 1984-85 to Rs.7898.50 crores during 1988-89. During this period imports exceeded exports by roughly 50 per cent. An analysis of trade deficit with reference to Rupee Payment Area

(RPA) countries (Table 7) and General Currency Area (GCA) countries (Table 8) reveals that there was increase in trade surplus with RPA countries. But, the trade imbalance with RPA countries resulted in increased grant of technical credits to these countries (to be repaid by future exports from RPA countries). The credits went up from Rs.100.03 crores in 1987-88 to Rs.1671.82 crores in 1990-91. The trade deficit with GCA countries ranged from 81.84 per cent of total exports in 1982-83 to 105.38 per cent in 1985-86 and 54.88 per cent in 1988-89. The deficit went up from Rs.5505.90 crores in 1984-85 to Rs.9403.60 crores in 1988-89 (Table 8) adding to the adverse balance of payments position, year by year.

(v) About 74 per cent of the country's exports during the years 1986-87 to 1988-89 was with EEC, ESCAP, USSR, USA and Middle East Countries (Table 9). While there was a trade surplus with USA and USSR, there was an adverse balance of trade with EEC and ESCAP countries. Adverse trade balance was particularly significant with eight countries, out of which five countries viz; Belgium, Federal Republic of Germany, United Kingdom, Japan and Malaysia accounted for more than 50 per cent of the total trade deficit during this period (Table 10).

(vi) According to the Economic Survey 1989-90, net invisibles, which on an average financed more than 60 per cent of trade deficit during the Sixth Five Year Plan, financed only 36 per cent of trade deficit during the years 1985-86 to 1987-88 (Table 11). This is indicative of the need for stepping up exports of merchandise to fill the trade gap.

TABLE 6
(Referred to in para 7.3.6(iv)

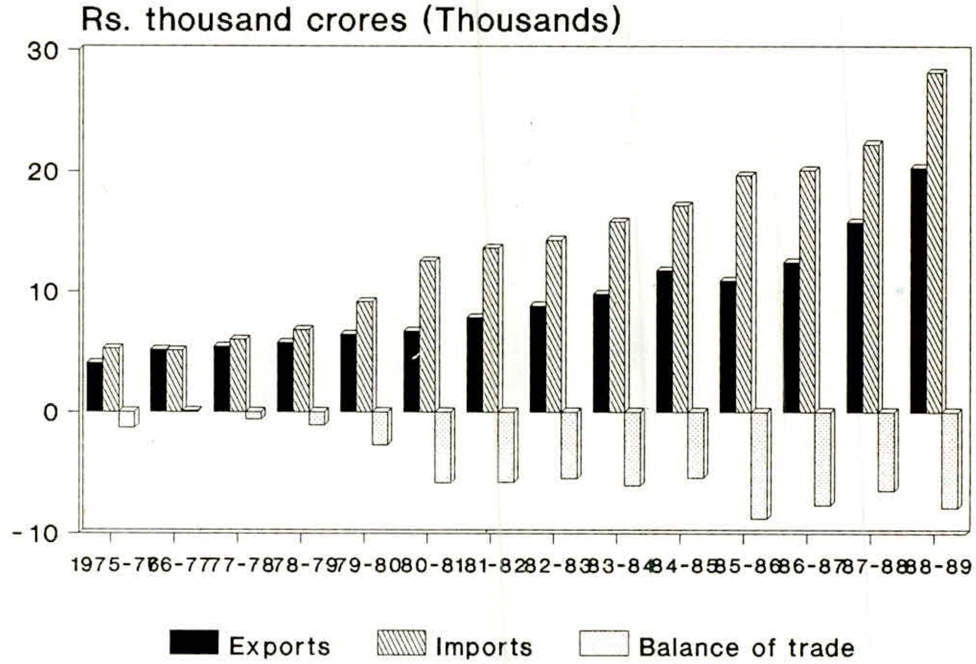
Trends in imports and exports

(Value: Rs. crores)

Year	Exports	Imports	Balance of trade	Percent of balance of trade w.r.t.exports
	(i)	(ii)	(iii)	(iv)
			[(i) - (ii)]	[(iii)/(i)x100]
				%
1975-76	4036.26	5264.78	-1228.52	- 30.44
1976-77	5142.25	5073.79	+ 68.46	+ 1.33
1977-78	5407.87	6020.23	- 612.36	- 11.32
1978-79	5726.07	6810.64	-1084.57	- 18.94
1979-80	6418.43	9142.58	-2724.15	- 42.44
1980-81	6710.71	12549.15	-5838.44	- 87.00
1981-82	7805.91	13607.55	-5801.64	- 74.32
1982-83	8803.37	14292.74	-5489.37	- 62.35
1983-84	9770.71	15831.46	-6060.75	- 62.03
1984-85	11743.68	17134.20	-5390.52	- 45.90
1985-86	10894.59	19657.69	-8763.10	- 80.43
1986-87	12451.95	20095.76	-7643.81	- 61.38
1987-88	15741.23	22243.75	-6502.51	- 41.31
1988-89	20295.15	28193.65	-7898.50	- 38.92

Source: DGCIS, Calcutta. as jncorporated in the Annual Reports of the Ministry of Commerce

Trends in imports and exports



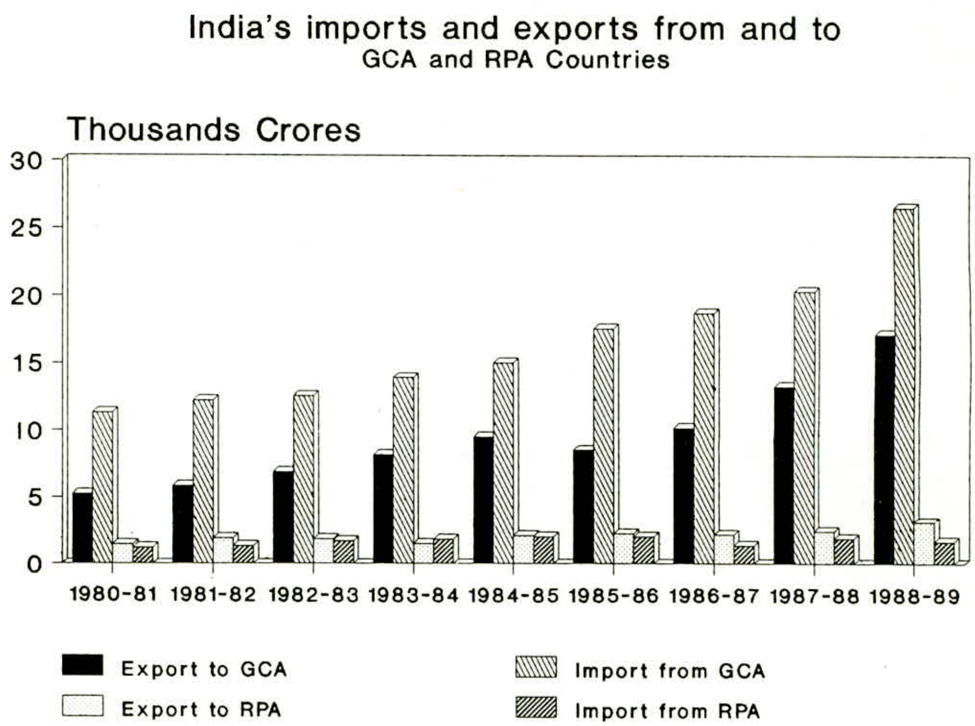

India's imports and exports from and to
GCA and RPA Countries
Thousands Crores
30
25
20
15
10
5
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
1988-89
Export to GCA
Export to RPA
Import from GCA
Import from RPA

TABLE 7

(Referred to in para 7.3.6(iv)

India's imports and exports from and to RPA Countries

Year	Export to RPA countries	Imports from RPA	Deficit Surplus	Per cent of deficit/ surplus w.r.t. exports
	Rs. crores	Rs. crores	Rs. crores	%
1980-81	1457.84	1228.60	+ 229.24	+ 15.72
1981-82	1943.29	1380.00	+ 563.29	+ 28.99
1982-83	1875.78	1741.07	+ 134.71	+ 7.18
1983-84	1568.95	1908.11	- 339.16	- 21.62
1984-85	2195.49	2080.11	+ 115.38	+ 5.25
1985-86	2331.08	2069.86	+ 261.22	+ 11.20
1986-87	2230.47	1380.10	+ 850.37	+ 38.12
1987-88	2450.54	1884.79	+ 565.75	+ 23.09
1988-89	3160.78	1655.68	+1505.10	+ 47.62

Source : Annual Reports Ministry of Commerce

TABLE 8

(Referred to in para 7.3.6(iv)

India's imports and exports from and to GCA Countries

Year	Exports to GCA countries	Imports from GCA countries	Defict	Percent of deficit w.r.t. exports
	Rs.crores	Rs.crores	Rs.crores	%
1980-81	5252.87	11320.55	- 6067.68	-115.51
1981-82	5862.62	12227.55	- 6364.93	-108.57
1982-83	6927.59	12551.67	- 5624.08	- 81.84
1983-84	8201.76	13923.35	- 5721.59	- 69.76
1984-85	9548.19	15054.09	- 5505.90	- 57.66
1985-86	8563.51	17587.83	- 9024.32	-105.38
1986-87	10221.47	18715.66	- 8494.19	- 83.10
1987-88	13290.69	20358.95	- 7068.26	- 53.18
1988-89	17134.37	26537.97	- 9403.60	- 54.88

Source : Annual Reports Ministry of Commerce

TABLE 9

(Referred to in para 7.3.6(v))

India's imports and exports by major countries

(Value Rs. crores)

Name of Region and countries	Imports			Exports		
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
ECM Countries Viz. Belgium, France, F.R.G., Italy, Netherlands and U.K.	6196.11	7110.40	8771.08	2583.47	3739.78	4664.00
U.S.S.R.	1014.79	1607.77	1258.06	1867.20	1971.49	2609.21
ESCAP (Hongkong, Japan and Singapore)	3328.72	2665.54	3436.29	1959.96	2343.42	3308.36
Arab Countries (Saudi Arabia and UAE)	1223.06	1528.31	2775.80	500.68	610.05	752.18
America (USA)	1961.08	2001.68	3196.53	2331.74	2907.63	3736.28
A Total of items	13723.76	14913.70	19437.76	9243.05	11572.37	15070.03
B Total of imports & exports from the country	20095.76	22243.74	28193.65	12451.95	15741.23	20295.15
Percentage of A to B	68.29	67.05	68.94	74.23	73.51	74.25

Source : Annual Reports Ministry of Commerce

TABLE 10

(Referred to in para 7.3.6(v)

Deficit in foreign trade in respect of some selected countries of ECM and ESCAP

(Value Rs. crores)

Sl. No.	ECM & ESCAP countries	Exports			Import			Deficit		
		1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
1.	Belgium	342.54	484.42	885.91	1089.77	1370.67	2037.68	-747.23	-886.25	-1151.77
2.	France	271.29	375.24	431.91	669.64	797.57	821.60	-398.35	-422.33	-389.69
3.	F.R. Germany	733.24	1061.91	1236.60	1937.88	2158.62	2471.91	-1204.64	-1096.71	-1235.31
4.	Italy	310.51	502.38	540.58	490.22	512.60	503.22	-179.71	-10.22	+37.36
5.	Netherland	225.84	282.45	404.11	385.35	442.45	536.07	-159.51	-160.00	-131.96
6.	United Kingdom	700.05	1033.38	1164.89	1623.25	1828.49	2400.60	-923.20	-795.11	-1235.71
7.	Australia	146.08	181.10	266.03	431.03	503.36	701.84	-284.95	-322.26	-435.81
8.	Japan	1333.85	1614.92	2162.26	2558.92	2126.20	2633.54	-1225.07	-511.28	-471.28
9.	KoreaRep.	106.48	140.82	182.82	322.32	333.41	433.23	-215.84	-192.59	-250.41
10.	Malaysia	84.83	89.17	130.33	552.15	840.55	792.14	-467.32	-751.38	-661.81
11.	Singapore	215.91	275.35	325.51	360.60	419.27	627.50	-144.69	-143.92	-301.99
A	Deficit of 11 countries above							-5950.51	-5292.05	-6228.38
B	Total deficit oftheyear							-7643.81	-6502.51	-7898.50
	Percentage of A to B							77.85	81.38	78.85

Source : Annual Reports Ministry of Commerce

TABLE - 11
(Referred to in para 7.3.6(vi))

Trade deficit in terms of Gross Domestic Product (GDP)

Items	1980-85	1985-86	1986-87	1987-88
	(As per cent of GDP)			
1	2	3	4	5
Exports	5.0	4.4	4.5	5.0
Imports	8.4	8.1	7.7	7.8
Trade Balance (Deficit)	- 3.4	- 3.7	- 3.2	- 2.8
Invisible (net) current account	2.1	1.4	1.2	0.9
Balance (net deficit)	- 1.3	- 2.3	- 2.0	- 1.9

Source: Economic Survey 1989-90

(vii) The overall targets for exports fixed by the Ministry from the years 1980-81 to 1988-89 were more or less achieved (Table 12). The Seventh Five Year Plan (1985-90) projections for exports were Rs.60653 at 1984-85 prices. Actual exports were Rs.87064 crores at current prices and Rs.73131 crores at 1984-85 prices i.e. the projections were achieved. During the Sixth Five Year Plan, on an average, the value of exports constituted 5 per cent of GDP (Table 11). It declined to 4.63 per cent in the first three years of the Seventh Five Year Plan. This would indicate that the export promotional strategies did not result in development and holding of identified markets in the identified countries, especially in the general currency areas. Also growth in export did not keep in step with domestic growth (see Table 11 also). The export targets were apparently not fixed so as to ensure that export growth kept in step with domestic growth. The export promotion incentives were not dovetailed to fixing of appropriate export targets for achievement.

TABLE - 12
(Referred to in para 7.3.6(vii)

Targets and achievements in exports during 1980-81 to 1988-89

Value Rs. Crores

Year	Targets	Achievements
1980-81	7100	6710.71
1981-82	8100	7805.91
1982-83	8650	8803.37
1983-84	10453	9770.71
1984-85	11127	11743.68
1985-86	11736	10894.59
1986-87	12203	12451.95
1987-88	13800	15741.23
1988-89	18795	20295.15

Source: Performance Budget and Annual Reports
Ministry of Commerce

(viii) The export performance in the six Export Processing Zones (EPZs) and the 100 per cent Export Oriented Units (EOUs) did little to reduce the trade gap. The EPZs contributed only 2.12 to 2.97 per cent of the total exports from the country during the years 1985-86 to 1988-89 (Table 13). The net outflow of foreign exchange in hard currency was Rs.597.48 crores in Kandla zone during the years 1981-82 to 1987-88 while during the same period, in Santacruz zone, there was a nominal net inflow of foreign exchange in hard currency amounting to Rs.9.56 crores. Government had incurred capital expenditure of Rs.31.86 crores till March 1990 on these two EPZs and had allowed a number of incentives and concessions to the exporters. The 143 operating units, under the 100 per cent EOUs scheme, contributed only 1.92 per cent of total exports during 1988-89 (Table 14). Ministry stated in January 1992 that the contribution to the export effort of the country from EPZ and 100 per cent EOUs will improve with the setting up of more and more units. A study conducted by Ministry of Commerce in October 1989 revealed that 73 MRTP companies under the large houses accounted for only 3.39 per cent of their main income by way of exports (Table 15). The study further revealed that in the case of 581 large companies, the RBI found that during the years 1984-85 to 1986-87, imports were more than exports resulting in outgo of foreign exchange of Rs.2277 crores. The study indicated that exports as a percentage of sales turnover ranged from 1.8 to 6.8. It was relatively lower in the case of companies in the Engineering and Chemical Sectors. Ministry stated in January 1992 that lack of export effort may not be the reason for 581 large companies importing more than their exports and it may be the result of several other factors. But, clearly efforts made at target fixation for exports at appropriate percentages of domestic production alongside the grant of export incentive measures were not adequate.

TABLE 13

(Referred to in para 7.3.6(viii)

Exports by Export Processing Zones

(Rupees in Crores)

Name of the Zone	No. of units Production as on Oct./Nov.89	1985-86	1986-87	1987-88	1988-89
Kandla	112	236.86	236.27	185.05	271.59
Santa Cruz	89	84.49	102.36	110.17	185.41
Falta	6	2.30	3.17	1.86	8.11
Madras	34	0.55	10.05	16.45	25.04
Cochin	9	-	0.94	3.94	6.25
Noida	35	-	7.01	16.05	21.34
A. Total of six zones	285	324.20	359.80	333.52	517.74
B. Total exports from the country		10894.59	12451.95	15741.23	20295.15
Percentage of A to B		2.97	2.89	2.12	2.55

Source: (1) DGCIS, Calcutta/Annual Reports Ministry of Commerce
(2) Performance Budget of Ministry of Commerce

TABLE 14

(Referred to in para 7.3.6(viii)

Exports by 100 per cent Export Oriented Units (EOUs)

Year	Exports by 100 per cent units (Rs. crores)	Total exports from the country (Rs. crores)	Percentage of exports to total exports
1984-85	89	11743.68	0.75
1985-86	168	10894.59	1.54
1986-87	279	12451.95	2.24
1987-88	245	15741.23	1.55
1988-89	390(P)	20295.15	1.92

P : Provisional

Source: Annual Report Ministry of Commerce 1989-90

TABLE 15

(Referred to in para 7.3.6(viii)

List of MRTP Companies of Large Houses as on 31.3.87

Sl. No.	Name of the Company	Number	Assets Rs. crores	Main Income Rs. crores	Export during 1986-87 (Rs.crores)	%of Export to MI
1.	A.C.C.	5	564.49	741.84	0.00	0.00
2.	Ahmedabad Electricity	2	341.51	233.77	0.00	0.00
3.	Apeejay	9	111.70	11.95	0.00	0.00
4.	Ashok Leyland	2	362.36	428.59	6.51	1.52
5.	Bajaj	25	736.11	775.81	6.37	0.82
6.	Bangur	65	614.76	712.37	11.53	1.62
7.	Bhiwandiwala A.H.	14	253.45	81.65	0.00	0.00
8.	Birla	159	4519.76	3959.85	122.52	3.09
9.	Bombay Suburban	3	206.99	264.12	0.00	0.00
10.	Ceat Tyres	6	184.60	269.45	7.39	2.74

11 Chowgule	22	341.02	192.62	45.49	23.62
12 Dalmia J.	6	116.04	75.34	0.01	0.01
13 Dublop	2	253.49	472.12	17.24	3.65
14 Escorts	6	414.78	474.04	0.19	0.84
15 Essar Bulk Carrier	3	233.63	59.99	0.00	0.00
16. Facor	2	103.23	137.36	0.00	0.00
17. G.E.C.	5	157.25	232.56	2.84	1.22
18. G.K.W.	3	167.26	227.62	2.25	0.99
19. Garware	42	275.21	232.79	9.52	4.09
20. Godrej	10	225.99	392.49	2.00	0.51
21.Goenka(K.P.)	32	197.84	152.25	11.73	7.70
22.Golden Tobacco	7	141.45	266.07	0.06	0.02
23.Hindustan Dev. Corpn.	1	161.62	115.11	3.04	2.64
24.Hindustan Lever	13	626.76	1469.03	137.91	9.93
25.I.C.I.	4	453.52	659.57	21.68	3.29
26.I.T.C	17	165.86	430.20	1.85	0.43
27.IMFA	8	192.78	23.32	0.00	0.00
28.J.K. Singhania	53	1426.67	1142.95	18.76	1.64
29.Jain Shudh	20	66.38	101.76	4.66	4.58
30.Kasturbhai Lalbhai	23	40.16	365.86	4.63	1.27
31.Khatau (Bombay)	22	318.48	462.70	17.25	3.73
32.Kirloskar	21	469.91	588.62	27.70	4.71
33.Kothari	4	120.67	72.63	0.69	0.95
34.Larsen & Tourbro	8	830.56	560.23	2.14	0.38
35.Lohia Machines	4	267.72	226.59	0.03	0.01
36.M.A.Chidambaram	33	788.26	413.11	1.96	0.47

37.Macneill & Magor	21	393.00	228.19	54.39	23.84
38.Madura Coats	3	207.60	187.29	0.00	0.00
39.Mafatlal	40	820.53	992.26	47.13	4.75
40.Mahindra & Mahindra	9	457.87	546.98	33.51	6.13
41.Metal Box	2	114.65	131.89	6.12	4.64
42.Modi	34	591.73	1035.13	29.78	2.28
43.M.R.F.	1	110.49	266.65	13.95	5.23
44.Murugappa Chettiar	28	128.84	208.24	4.18	2.01
45.N.R.C.	2	124.38	107.27	0.00	0.00
46.Naidu G.V.	37	134.42	188.52	2.69	1.43
47.Nava Bharat	4	126.68	216.60	106.99	49.40
48.Nirlon Synthetics	7	0.42	0.00	0.00	0.00
49.Nowrosjee Wadia	10	326.21	373.03	9.38	2.51
50.Oberoi M.S.	13	236.71	65.48	0.20	0.31
51.Orissa Cement	3	131.91	93.41	1.09	1.17
52.Orkay Silk Mill	23	192.87	241.43	0.37	0.15
53.Parry	11	71.13	210.29	0.04	0.02
54.Phillips	3	286.25	344.28	11.43	3.32
55.Rallis	10	120.00	233.00	11.57	4.97
56.Rassi	8	165.68	53.71	0.00	0.00
57.Raunaq Singh	10	199.30	208.74	1.19	0.57
58.Reliance	12	2021.53	951.22	0.00	0.00
59.Sahu Jain	2	65.96	102.43	0.00	0.00
60.Sarabhai	13	185.62	140.50	0.13	0.09
61.Scindia	3	157.98	104.93	0.00	0.00
62.Shaw Wallace	23	120.82	236.80	12.43	5.25

63.Shri Ambica	29	151.63	141.87	4.55	3.21
64.Shri Ram	24	583.22	794.16	14.38	1.81
65.Simpson	30	254.00	331.99	10.81	3.26
66.T.V.S. Iyenger	33	577.88	654.84	7.81	1.19
67.Tata	83	4902.88	4916.04	179.57	3.65
68.Tata Tea	2	133.43	133.00	10.83	8.14
69.Thapar	45	1136.85	1039.38	16.45	1.58
70.United Breweries	31	449.56	525.59	28.55	5.43
71.V. Ramakrishna	14	170.09	151.13	1.65	1.09
72.V.S. Depo	12	94.53	59.78	28.63	47.89
73.Walchand	18	494.32	433.97	2.76	0.64
TOTAL		33265.84	33676.35	1140.51	3.39

Source: Report of the Panel on Export Performance of Large Industrial Houses, Ministry of Commerce.

(ix) Exports by Public Sector enterprises (Table 16) during the years 1985-86 to 1988-89 were lower than those achieved during the years 1984-85. The exports of Public Sector enterprises constituted 49.65 per cent of total exports from the country during 1984-85 but declined to 31.63 per cent in 1986-87 and 24.13 per cent in 1988-89. The exports by Public Enterprises as percentage of their turnover ranged between 5 to 6 per cent during the years 1985-86 to 1988-89 (Table 17). Apparently, higher targets for exports was possible for achievement by the Public Sector Enterprises also.

TABLE 16

(Referred to in para 7.3.6(ix)

Export performance of public enterprises

(Rs. in crores)

Year	Export of canalised goods	Export of non-canalised goods	Export of services	Total	Percentage growth from previous year	Total exports from the country	Total Percentage of public sector exports to total exports
1984-85	2568.02	1955.93	1307.50	5831.45	5.41	11743.68	49.65
1985-86	1545.17	1007.09	1270.06	3822.32	(-)34.45	10894.59	35.08
1986-87	1218.77	1282.45	1437.67	3938.89	3.05	12451.95	31.63
1987-88	1390.47	1357.47	1428.54	4176.48	6.03	15741.23	26.53
1988-89	1336.28	1752.08	1809.71	4898.07	17.28	20295.15	24.13

Source: Public enterprises survey 1988-89 (BPE)

Table 17

(Referred to in para 7.3.6(ix)

Export performance of Public Sector enterprises with reference to turnover.

	Turnover Rs. Crores	Exports Rs. Crores	Percentage of exports to turnover
1985-86	62360.00	3822.32	6.13
1986-87	69015.86	3938.89	5.71
1987-88	81268.25	4176.48	5.14
1988-89	93122.13	4898.07	5.26

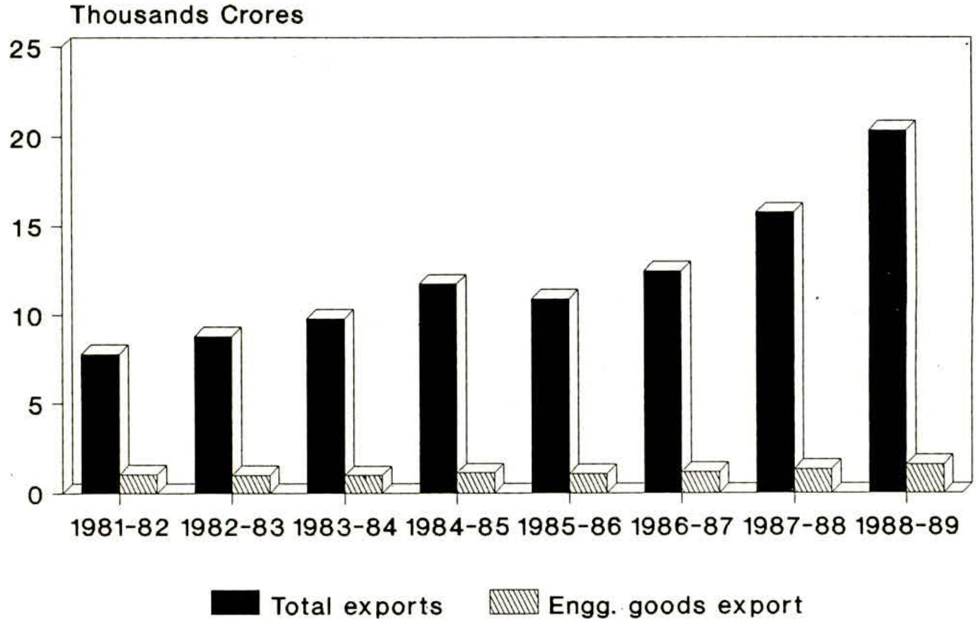
Source:Public Enterprises Survey Highlights 1986-87 and 1988-89

7.3.7 *Export of engineering goods*

(i) Engineering goods cover capital goods, steel and pig iron based items, non-ferrous products and consumer durables. Electronics and softwares also included in this category have been considered to be potential thrust sectors for exports. Management and technical services also fall under the category of engineering goods. An assessment made by the Ministry during 1988-89 revealed that export of engineering goods constituted only 2 per cent of the total production of engineering goods in the country. Export of engineering goods stagnated between Rs.1000 and Rs.1204 crores during the years 1981-82 to 1986-87 (Table 18). Exports of engineering goods as percentage of total exports from the country declined from 13.4 per cent in 1981-82 to 8.6 per cent in 1987-88. In this category, the export targets though they were modest were not achieved during the years 1981-82 to 1988-89 (Table 19). Ministry stated in January 1992 that the share of engineering exports in total domestic production has shown an upward trend and was 2.6 per cent in 1989-90. The achievement cannot be considered as encouraging. On the stagnation in exports the Ministry stated that it was due to spiralling recession, declining world trade and increasing protectionism in our trading partners.The first two reasons are only descriptive of fall in demand level but do not deny existence of competitive trade which was the frame work in which incentives were determined. The third factor must also have been taken into account while granting export incentives, as protectionism cannot be overcome by any level of cash incentives which must have been aimed at non-protected markets.

(ii) Though the export earnings increased from Rs.1047 crores in 1981-82 to Rs.1204 crores in 1986-87, the earnings in terms of dollars, declined from 116.75 crore dollars to 94.22 crore dollars during the same period becuase of depreciation in the exchange rate of rupee (Table 20). There was a discrepancy in the yearwise export figures as given in the annual reports of the Ministry and those in the annual reports of the Engineering Export Promotion Council (EEPC). Export figures of EEPC were higher during the years 1984-85 to 1986-87 while the Ministry's figures were higher during 1987-88. The reasons for the discrepancy in the two sets of figures were not known. Both the reports are laid before the Parliament. (Table 21).

Export performance of engg.
goods w.r.t. total exports



Non achievement of export
targets of engineering goods

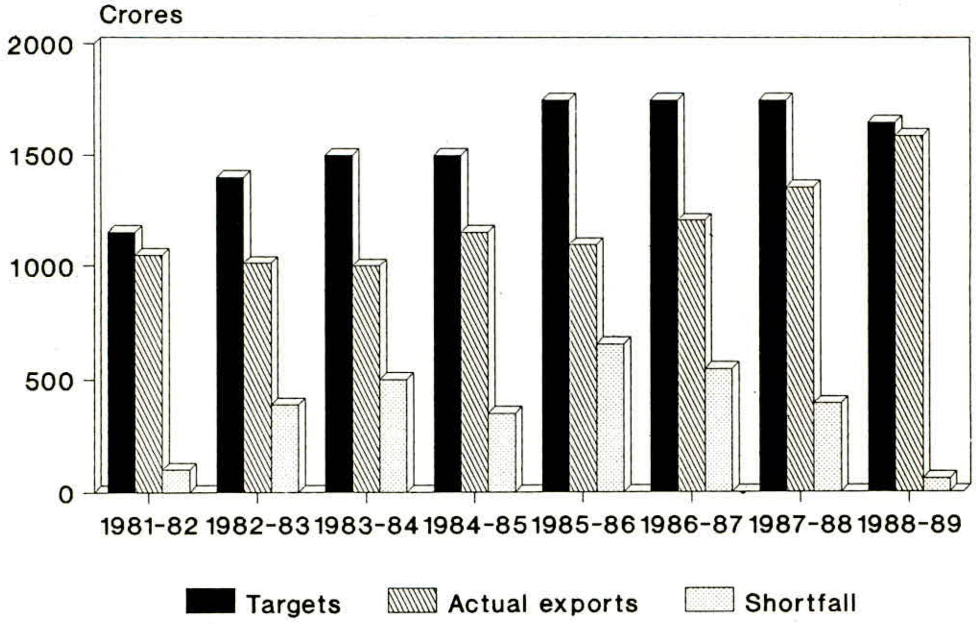


TABLE 18

(Referred to in para 7.3.7(i)

Export performance of engineering goods with reference to total exports from the country

Year	Total exports from the country		Engineering goods exports		
	Exports (Rs.crores)	Variation (Percentage)	Exports (Rs.crores)	Variation in percentage	Percentage of exports to total exports
1981-82	7806	+ 16.3	1047	+ 14.0	13.4
1982-83	8803	+ 12.8	1011	- 3.4	11.5
1983-84	9771	+ 11.0	1000	- 1.1	10.2
1984-85	11744	+ 20.2	1150	+ 15.0	9.8
1985-86	10895	- 7.2	1095	- 4.8	10.0
1986-87	12452	+ 14.3	1204	+ 9.9	9.7
1987-88	15741	+ 26.4	1355	+ 12.5	8.6
1988-89	20295(P)	+ 28.9	1589	+ 17.3	7.8
			(Excluding Electronics)		

Source : Annual Reports of Ministry of Commerce and Engineeing Export Promotion Council (EEPC)

TABLE 19

(Referred to in para 7.3.7(i)

Non achievement of export targets of engineering goods

Year	Targets (Rs.crores)	Actual exports (Rs.Crores)	Short fall (Rs.crores)	Shortfall percentage of total exports
1981-82	1150	1047	103	8.96
1982-83	1400	1011	389	27.78
1983-84	1500	1000	500	33.33
1984-85	1500	1150	350	23.33
1985-86	1750	1095	655	37.43
1986-87	1750	1204	546	31.20
1987-88	1750	1355	395	22.57
1988-89	1650	1589	61	3.70

Source: EEPC

Table 20

(Referred to in para 7.3.7(ii)

Export earnings in terms of dollars of engineering goods

Year	Export of engineering goods (Rs. crores)	Rupee rate of dollar	Export value crore dollars
1981-82	1047	8.968	116.75
1982-83	1011	9.666	104.59
1983-84	1000	10.340	96.71
1984-85	1150	11.889	96.73
1985-86	1095	12.235	89.50
1986-87	1204	12.778	94.22
1987-88	1355	12.966	104.50

Source: EEPC and Economic Survey 1989-90

TABLE 21

(Referred to in para 7.3.7(ii)

Discrepancy in export figures of engineering goods as published by the Ministry and those compiled by the Engineering Export Promotion Council

Year	As per Annual Report of EEPC etc. (Rs. Crores)	As per Annual Report of Ministry of Commerce (Rs. crores)	Difference (2-3) (Rs. crores)
1	2	3	4
1984-85	1150	880	270
1985-86	1095	954	141
1986-87	1204	1134	70
1987-88	1355	1433	- 78

Source: Annual Reports of Ministry of Commerce and EEPC

(iii) The D.V. Kapoor Committee, set up in July 1982, for evolving export strategy in engineering sector during the Seventh Five Year Plan period suggested the (i) continuation and strengthening of incentives for exports and (ii) selection of specific thrust industries as are internationally competitive. The committee visualised a target of Rs.12500 crores for exports of engineering goods in 1990-91 (Table 22) against the target of Rs.3000 crores in 1989-90.

Accordingly Government allowed import of capital goods at low rates of duty, delicensed certain industries, liberalised import of technology and allowed IPR for aluminium etc. During the years 1986-87 to 1988-89 the Government identified 35 industries as thrust industries for exports and also 9 thrust areas in the field of project exports. But the exports of engineering goods including electronic items valued only Rs.3012.29 crores during 1989-90 (provisional figures) which was well below Rs.12,500 crores visualised by Kapoor Committee and below even the normal target of Rs.7576 crores which was considered feasible by the Kapoor Committee. Ministry stated in January 1992 that many of the package of measures for boosting engineering exports announced in 1986 were actually implemented much later while some were not implemented at all. There was a gestation period for import of capital goods, development of product, market etc. The concessions were extended to products constituting a small percentage of engineering goods. The reply does not explain fall in performance below target feasible without the additional incentives not fully given or given late.

TABLE 22

(Referred to in para 7.3.7(iii)

Category wise target of exports of engineering industries

Category	1984-85		1990-91	
	Normal (Rs.crores)	Special (Rs.crores)	Normal (Rs.crores)	Special (Rs.crores)
Capital goods	881	1249	3475	6335
Primary steel and Pig iron based	338	443	1180	1825
Non-ferrous	50	50	100	100
Consumer Durables	736	874	2821	4300
Total	2005	2616	7576	12560

Source: Report of the Committee Perspective on Plan and Strategy for export of Engineering and Capital goods (August 1984) (D.V.Kapoor Committee Report)

(iv) During the years 1984-85 to 1988-89, only 13 engineering goods (Table 23) accounted for more than 50 per cent of the total exports and 11 of these represented thrust items for export (out of 35) identified by the Ministry. But these 11 items did not show a consistent growth in exports. There was a declining trend in exports in 7 thrust industries during the years 1984-85 to 1988-89 (Table 24), with a few exceptions. This was despite availability of CCS in 7 industries (except in the case of mica and mica products) and other concessions. Continuance of CCS for some of these items from April 1989 did not achieve the objective of boosting exports. Although India has been exporting engineering goods to more than 100 countries, only 13 countries (Table 25) accounted for more than 50 per cent of its total exports. USSR (RPA) accounted for around 25 per cent of the total exports of engineering goods during the years 1985-86 to 1987-88. The factors coming in the way of securing long term markets with established buyers in GCA linked to sellers in India (as was secured by Government of India with Governments in RPA countries) and promoting stability in exports to GCA had not been analysed in the Ministry despite maintaining commercial representations in the Indian Embassies in the GCA countries and giving grants in aid to export promotion and market development organizations in India. Ministry stated in January 1992 that our Embassies and High Commissions and our trade Commission Organisations in such countries do make considerable effort in promoting our exports to such countries. The results of such efforts in terms of long term agreements on exports to GCA countries have not been given in the reply of the Ministry.

TABLE 23

(Referred to in para 7.3.7(iv)

Export of principal engineering goods with reference to targets fixed

(Rs. crores)

Sr. No.	Description of the products	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
1.	Electronics	107.00	117.00	105.13	115.00	190.00	N.A.
		100.00*	140.00	140.00	160.00	160.00	
2.	Electric Power Machinery & switchgear	30.50	29.75	21.07	43.36	34.00	36.00
		50.00	52.00	40.00	40.00	25.00	40.00
3.	Textile Machinery	13.50	21.50	27.94	37.69	35.50	90.00
		20.00	24.00	25.00	40.00	35.00	42.50
4.	Sanitary Castings	36.50	37.00	26.86	18.93	30.00	29.00
		60.00	70.00	60.00	45.00	40.00	32.00
5.	Machine Tools	26.75	23.50	59.78	65.59	66.50	68.00
		35.00	32.00	32.00	45.00	60.00	80.00
6.	Steel Pipes and tubes	15.75	15.75	16.75	11.62	28.00	44.00
		50.00	50.00	50.00	35.00	15.00	34.00
7.	Storage battries	24.00	32.00	44.28	36.33	55.00	72.25
		40.00	30.00	40.00	48.00	60.00	56.50
8.	Automobiles & Auto parts	74.00	107.50	105.11	103.77	104.00	198.50
		137.00	140.00	170.00	155.00	185.00	155.00
9.	Internal combustion Engine and Air Compressors	49.50	77.00	71.70	73.95	86.00	131.50
		90.00	80.00	90.00	105.00	105.00	96.00
10.	Bicycle and Parts	36.00	46.50	40.60	53.37	69.00	89.00
		65.00	70.00	75.00	70.00	90.00	85.00
11.	Hand tools, small and cutting tools	32.00	34.75	30.89	46.34	59.00	66.75
		55.00	60.00	55.00	55.00	70.00	68.00
12.	Steel structures fabricated	26.00	20.75	20.57	22.70	25.00	32.50
		50.00	42.00	30.00	45.00	40.00	28.00
13.	Electric Wires & cables	27.50	34.00	43.20	37.40	48.50	61.00
		50.00	35.00	40.00	55.00	50.00	55.00
	Total of 13 items	499.00	597.00	613.88	666.05	830.50	918.50
	Total exports	1000.00	1150.00	1095.00	1204.00	1355.00	1589.00

*indicates targets figures.

Source: EEPC

TABLE 24

(Referred to in para 7.3.7(iv)

Declining trend in exports of thrust engineering industries

(Value Rs. crores)

Sl. No.	Name of the product	1984-85 Normal targets DV Kapoor Committee	1984-85	1985-86	1986-87	1987-88	1988-89
1.	Sugar Mill Machinery	25 15*	14.50	3.39	7.50	1.00	1.25
2.	Tractors and agricultural (Tractors) equipments	3	NA	15.37	13.67	5.00	8.25
3.	Transmission line towers	42 29*	19.50	7.72	3.55	5.00	2.25
4.	Wagons and coaches	5 12*	15.00	11.69	17.47	3.50	3.50
5.	Electric fans and parts	20 18*	7.25	6.85	5.47	5.75	6.50
6.	Refrigeration equipment (Heating and cooling equipment)	20 6*	3.50	3.08	4.90	2.00	6.00
7.	Mica and Mica products	NA	25.00	15.14	16.53	12.50	15.50

*Targets fixed by Ministry/EEPC.

Source: Report of the Committee on Perspective Plan and Strategy for export of Engineering goods and Capital goods (1984) (D.V. Kapoor Committee Report)

(ii) Annual reports EEPC.

Table 25
(Referred to in para 7.3.7(iv)

Exports of engineering goods to some selected countries.

(Rs. crores)

Sl. No.	Name of the Country to which exported	1983-84	1984-85	1985-86	1986-87	1987-88
1.	USSR	135	185	299.75	330.00	325.00
2.	USA	30	125	99.15	122.00	135.00
3.	U.K.	35	40	32.50	45.00	60.00
4.	Saudi Arabia	55	60	21.70	25.00	32.00
5.	U.A.E.	22	26	21.50	23.00	25.00
6.	Sri Lanka	25	30	23.70	16.00	30.00
7.	F.R. Germany	22	28	24.75	30.40	40.00
8.	Iran	32	35	19.30	12.00	23.00
9.	Nigeria	29	25	15.00	18.00	28.00
10.	Malaysia	16	15	11.30	14.00	20.00
11.	Egypt Arab Republic	40	36	30.90	27.00	25.00
12.	Bangladesh	25	30	60.70	65.00	70.00
13.	Iraq	27	22	9.60	3.00	8.00
Total exports of 13 countries		543	657	669.85	730.40	821.00
Total exports of Engineering goods		1000.00	1150.00	1095.00	1204.00	1355.00

Source : EEPC

7.3.8 *Export of leather and leather products*

(i) Leather and leather goods industry is now recognised as a major thrust sector in India's export strategy. The country's strength in this field lies in the abundant availability of hides and skins (Table 26), which are basic raw materials of the leather industry.

(ii) India's share in world market continues to be marginal despite the rich availability of raw materials and low labour costs. Against global imports of Rs.46,500 crores during 1987, India's contribution was only Rs.1245 crores constituting only 2.67 per cent of the total global imports (Table 27). India has been mainly exporting finished leather and footwear components which do not have much demand, as such, in the world. Its share of the world demand in footwear, leather garments and other leather goods, has been insignificant i.e. 0.94 per cent of world trade in 1987 (Table 27).

(iii) The percentage of exports of leather and leather products to the total exports, in value terms, was 8.36 per cent during 1979-80. It came down to 4.46 per cent during 1983-84 (Table 28), but went upto 6.08 per cent in 1985-86 to 7.92 per cent only in 1988-89 (lower than in 1979-80) despite being identified as a thrust sector of export and the greater flexibility allowed to the sector in the import export policy. The improvement in share of exports was due to increase in volume of exports, better unit value realisation and rise in the exchange rate of rupee (Table 29). Out of the leather exports for Rs.1244.86 crores and Rs.1608.37 crores during the years 1987-88 and 1988-89 respectively, almost 44 per cent of the exports were accounted for by semi-finished and finished leather items involving low value addition. Except in respect of footwear components, the modest targets fixed for export of leather and leather products in the Seventh Five Year Plan were exceeded (Table 30). There was discrepancy in the yearwise figures given in the annual reports of the Ministry and those in the annual reports of the Council for Leather Exports (CLE). Export figures of the council were higher during the years 1986-87 to 1988-89 whereas the Ministry's figures were higher during the years 1984-85 and 1985-86 (Table 31). The reasons for the wide gap in the two sets of export figures were not known. Both the reports are laid before the Parliament.

Table 26

(Referred to in para 7.3.8(i)

Global availability of hides and Skins (1986)

(in million pieces)

S.No.	Category	Global availability	India's availability	(4) as %age of (3)
(1)	(2)	(3)	(4)	(5)
1.	Bovine	275.4	37.4	13.6%
2.	Goat & Kid skins	202.3	75.4	37.3%
3.	Sheep & lamb skins	473.7	31.4	6.6%

(Source : Council for Leather Exports)

Table 27

(Referred to in para 7.3.8(ii)

Estimated global import and India's export (1987) of leather and leather products

(Rs. in crores)

S.No.	Products	World	India	Percentage
1.	Leather	6,000	558	9.3
2.	Footwear	23,625	129	0.54
3.	Footwear Components	1,875	323	17.22
4.	Leather garments	6,000	105	1.75
5.	Other Leather goods	9,000	130	1.44
	TOTAL	46,500	1245	2.67

SOURCE: Report of working Group on leather and leather goods industries for the Eight Five Year Plan (1990-95)

Table 28

(Referred to in para 7.3.8(iii)

Share of leather and leather products in the country's total exports

Year	Total export from the country	Export of leather and leather products	%age (3) to 2
	(Rupees in crores)		
1979-80	6418.43	536.90	8.36
1980-81	6710.71	399.75	5.96
1981-82	7805.91	434.90	5.57
1982-83	8803.37	399.39	4.54
1983-84	9770.71	436.05	4.46
1984-85	11743.68	583.77	4.97
1985-86	10894.59	662.51	6.08
1986-87	12451.95	930.76	7.47
1987-88	15741.23	1244.86	7.91
1988-89	20295.15	1608.37	7.92

(SOURCE:(1) Annual Reports of Ministry of Commerce in respect of total exports from the country

(2) Annual reports of the Council for Leather Exports, Madras.

Table 29

(Referred to in para 7.3.8(iii)

Growth of export of leather and leather products.

	Value (Rs.crores)	Growth Rate	Average Rate of US $	Value in US $ Crores	Growth Rate in terms of earnings in US $
1983-84	436.05	-	10.340	42.171	
1984-85	583.77	33.87	11.889	49.101	16.43
1985-86	662.51	13.49	12.235	54.148	10.28
1986-87	930.76	40.49	12.778	72.840	34.52
1987-88	1244.86	33.74	12.966	96.000	31.79
1988-89	1608.37	29.20	14.482	110.06	14.64

NOTE: Growth rate from 1983-84 to 1988-89 in terms of rupee is 268.84 per cent whereas in terms of U.S. it is 160.98.

SOURCE :(1) For rate of US $ Economic Survey of India 1989-90

(2) For Export of leather annual reports of Export Promotion Council for leather and leather products.

Share of leather and leather products in the country's total exports

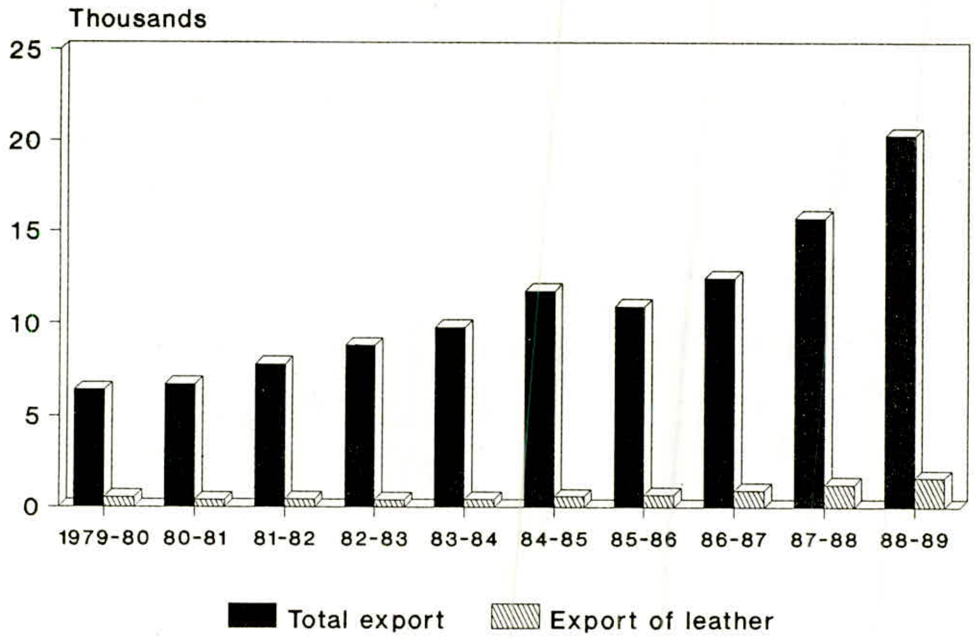


Table 30

(Referred to in para 7.3.8(iii)

Seventh Plan export targets and achievements in leather and leather products

(Rs.Crores)

Sl. No.	Product group	1985-86 Target	1985-86 Actual	1986-87 Target	1986-87 Actual	1987-88 Target	1987-88 Actual	1988-89 Target	1988-89 Actual	1989-90 Target
1.	Semi Finished Leather	40	49.07	30	52.50	25	72.59	20	45.00	15
2.	Finished Leather	170	288.20	150	400.89	135	485.97	120	649.88	100
3.	Leather footwear	30	33.03	35	80.38	45	128.03	55	130.17	65
4.	Footwear Compenents	230	190.35	310	240.69	420	323.83	570	425.62	770
5.	Other leather manufacturers	70	101.86	80	156.30	90	234.44	105	357.70	120
	Total	540	662.51	605	930.76	715	1244.86	870	1608.37	1070

Source: Report of working group on leather and leather goods industries for the Eighth Five Year Plan (1990-95) and Annual Reports of Council for leather exports.

Table 31

(Referred to in para 7.3.8(iii)

Discrepency in exports figures as published in Annual Report of the Ministry and the Council for Leather Exports.

(Rs. in crores)

Year	Export figures as per Annual Reports of Ministry of Commerce	Export figures as per Annual Reports of Council for Leather Export	Difference
1984-85	675.43	583.77	- 91.66
1985-86	769.91	662.51	- 107.40
1986-87	922.41	930.76	8.35
1987-88	1148.52	1244.86	96.34
1988-89	1489.50 (P)	1608.37	118.87

P: For Provisional figures

SOURCE :Annual Reports Ministrty of Commerce and Council for Leather Exports.

(iv) During the years 1984-85 to 1988-89, about 25 per cent of the exports in this sector were made to the RPA countries (Table 32). Sixty five to eighty per cent of the total exports of leather and leather products were to seven countries (Table 33) among which USSR, FRG and USA accounted for the major share. The total exports of manufactured leather products were much lower than the exports of finished leather and footwear components where the value addition was not high. In order to boost the export of leather goods the Government in its Import-Export policy (1985-86 to 1989-90) imposed a ban on exports of raw hides and skins; ban on exports of semi-processed leather was imposed from 1.4.1990. Duty free import of raw-hides and skins, chemicals and chrome tanned leather under Open General Licence was also allowed to augment availability of leather at international prices in order to promote exports. The list of machinery allowed to be imported under OGL was enlarged and custom duty on such imports was reduced.

Table 32
(Referred to in para 7.3.8(iv)

Direction of exports of leather and leather products

(Rs. in crores)

Direction	1984-85	1985-86	1986-87	1987-88	1988-89
R.P.A. Countries	143.34	156.76	228.06	260.49	402.73
G.C.A. Countries	440.43	505.75	702.70	984.37	1205.64
TOTAL	583.77	662.51	930.76	1244.86	1608.37
%age of RPA to total export	24.55	23.66	24.50	20.93	25.04

SOURCE : Annual Reports Council for leather Exports
R.P.A - Rupee Payment Area
G.C.A - General Currency Area.

Table 33

(Referred to in para 7.3.8(iv)

Major countries of exports of leather and leather products during the years 1984-85 to 1988-89

(Value Rs. Crores)

Name of the country	Semi finished leather	Finished leather	Leather footwear	Footwear components	Leather garments	Leather goods. others	Total	Percentage to total exports
Italy	100.65	314.77	-	13.00			428.42	8.69
France	8.32	129.42	30.10	9.68	32.11	32.96	242.59	4.92
U.K.	62.91	170.99	30.34	69.30	86.49	52.33	472.36	9.58
F.R.G.	-	260.62	95.60	158.23	136.75	119.88	771.08	15.63
U.S.A.	-	183.77	124.02	180.05	39.73	92.33	619.90	12.57
USSR	42.99	345.34	5.57	554.08	-	6.41	954.39	19.35
G.D.R.	-	-	-	148.32	6.21		154.53	3.13
Total of seven countries	214.87	1404.91	285.63	1132.66	301.29	303.91	3643.27	
Total exports 1984-85 to 1988-89	268.33	2133.47	398.38	1313.28	360.32	458.52	4932.30	
%age	80.08	65.85	71.70	86.25	83.62	66.28	73.87	

SOURCE : Annual Reports Council for Leather Exports.

(v) In February 1990, the Ministry of Commerce constituted a group to consider the question of phasing out export of leather and to promote exports of leather products. The Committee, inter-alia, recommended, in April 1990, the phasing out of export of finished leather over a period of 5 to 10 years, from 1st April 1991. Another working group constituted by Planning Commission in Agusut 1988 had identified, in 1990, some factors which hampered the growth of the industry. The effect of the implementation of these recommendations is not yet known.

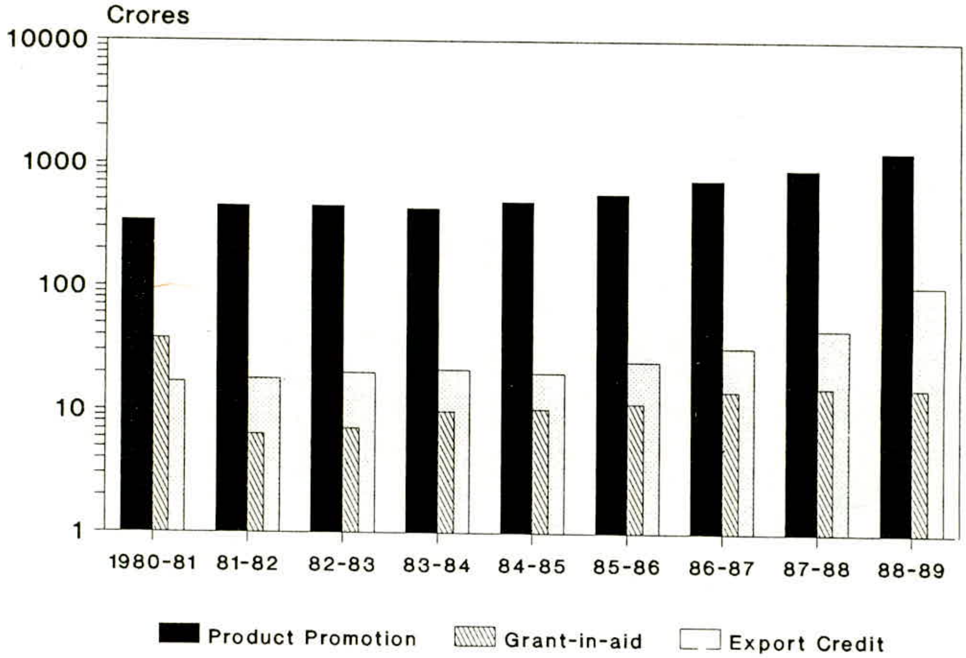
7.3.9 *Cash Compensatory Support (CCS)*

(i) The Scheme of Cash Compensatory Support (CCS) was introduced in 1966. The rates of CCS are determined by reference to the guidelines laid down by the Ministry from time to time, by a Committee named 'Cash Assistance Review Committee' (CARC). Its recommendations are approved by another Committee called Marketing Development Assistance (MDA) Committee in the Ministry. The Government constituted Local Classification Committees (LCCs) and Headquarters Classification Committee (HQCC) to deal with classification of items for the purpose of grant of CCS. CCS is disbursed by the regional offices of the CCIE and the nationalised banks.

(ii) In addition to physical exports CCS is also allowed on certain types of 'deemed exports' i.e. on supplies to projects in India financed by IDA, IBRD, ADB etc. and supplies from Domestic Tariff Area (DTA) to EPZ and the 100 per cent EOUs. The CCS on deemed exports is admissible at the rate of 75 per cent of what is admissible on physical exports. The grant of CCS at 75 per cent has also been abolished from 3rd July 1991, but refund of duty drawback and refund of terminal excise duty wherever admissible have been continued, for deemed exports, upto 31st March 1992.

(iii) During the years 1981-82 to 1988-89 the CCS payments accounted for more than 90 per cent of the total amount disbursed under Assistance for Export Promotion and Market Development (Table 34). With the increase in exports of items entitled to CCS, the disbursement of CCS has increased from Rs.431.50 crores in 1983-84 to Rs.1268.67 crores in 1988-89. While the value of CCS assisted exports increased from Rs.3829.85 crores in 1983-84 to Rs.6530.70 crores in 1986-87 (Table 35), the CCS assisted export of engineering items (excluding deemed exports) stagnated around Rs.1000 to Rs.1204 crores. This was despite the fact that CCS paid on engineering exports was on the average 36.41 per cent of the total CCS

Assistance from Market Development



paid during this period (Table 36). CCS paid on the export of engineering items was on an average more than Rs.270 crores per annum during the years 1986-87 to 1988-89 (Table 36). In the case of leather sector the annual CCS paid during the same period averaged Rs.112.84 crores.

TABLE 34
(Referred to in para 7.3.9(iii))

Assistance from Market Development

(Value Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Product Promotion and Commodity Development	344.15	452.48	449.75	431.50	487.75	566.72	738.87	901.81	1268.67
Grant-in-aid to Export Promotion and Market Development Organisations	37.86	6.42	7.18	9.80	10.25	11.39	14.28	15.30	15.12
Export Credit Development	17.00	18.00	20.00	21.33	20.00	24.70	32.18	45.00	102.00
Total	399.01	476.90	476.93	462.63	518.00	602.81	785.33	962.11	1385.79

Source : Demands for grants Ministry of Commerce

TABLE 35
(Referred to in para 7.3.9(iii)
CCS assisted Exports

(Value: Rs.crores)

A. CCS assisted

Year	Exports	Growth rate %	CCS paid	Growth rate %	Percentage of CCS to exports
1983-84	3829.85		430.13		11.23
1984-85	4617.39	20.6	487.75	13.4	10.56
1985-86	4901.67	6.16	561.74	15.17	11.46
1986-87	6530.70	33.23	739.20	31.59	11.32
1987-88	8362.01	28.04	901.26	21.92	10.78

B. CCS as percentage of total exports

	Total exports	CCS paid as per demands for grants (Actuals)	Percentage of CCS to total exports	Export credit develop-ment	Percentage to total exports
1983-84	9770.71	431.50	4.42	21.33	0.22
1984-85	11743.68	487.75	4.15	20.00	0.17
1985-86	10894.59	566.72	5.20	24.70	0.23
1986-87	12451.95	738.87	5.93	32.18	0.26
1987-88	15741.23	901.81	5.73	45.00	0.29
1988-89	20295.15	1268.67	6.25	102.00	0.50

C. Grants in Aid to EPC etc.

	Grants in aid	Percentage to total exports
1983-84	9.80	0.10
1984-85	10.25	0.09
1985-86	11.39	0.10
1986-87	14.28	0.11
1987-88	15.30	0.10
1988-89	15.12	0.07

Source: (i) Annual Reports Ministry of Commerce
(ii) Demands for grants of Ministry of Commerce
(iii)Data compiled by MDA Division of Ministry of Commerce

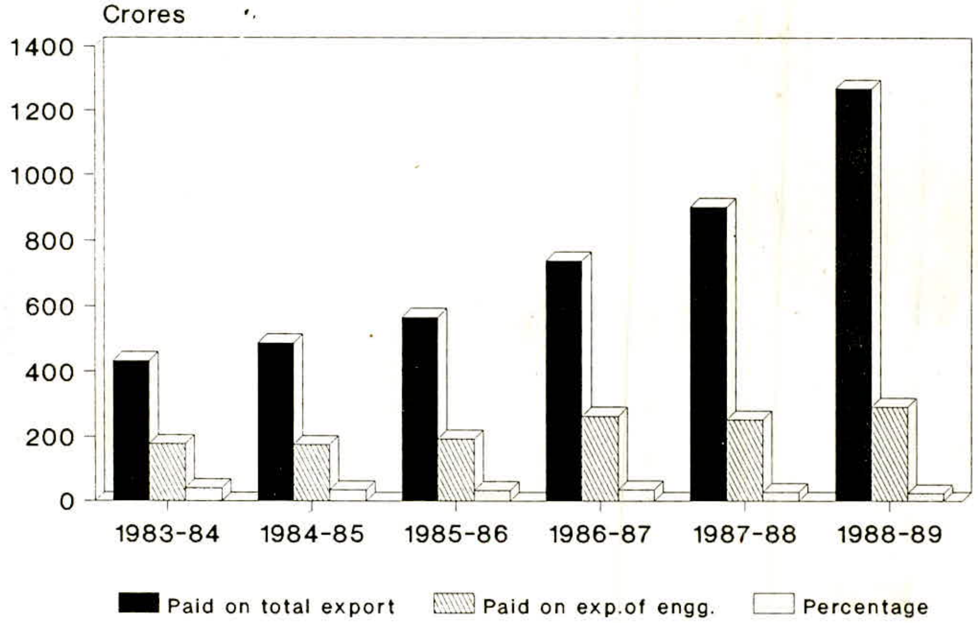
Table 36
(Referred to in para 7.3.9(iii)

Cash Compensatory Support paid on export of engineering goods

Year	CCS paid on total exports (Rs. crores)	CCS paid on the exports of engineering goods (Rs.crores)	Percentage (3 to 2)
1	2	3	4
1983-84	431.50	176.99	41.02
1984-85	487.75	175.84	36.05
1985-86	566.72	193.57	34.16
1986-87	738.87	263.60	35.68
1987-88	901.81	252.96	28.05
1988-89	1268.67	292.28	23.04
	4395.32	1355.24	

Source:Demands for grants and Performance Budget of Ministry of Commerce

Cash Compensatory Support paid on
export of engineering goods



(iv) Irregularities noticed in the working of the CCS have been highlighted in the earlier Audit Reports and were viewed seriously by the Public Accounts Committee which recommended as follows:

(a) "The basic defect in the system of granting CCS seems to be that there is no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisations and the impact of various kinds of assistance given for export promotion so that necessary changes and adjustments could be effected promptly as soon as wide fluctuations came to notice. Consequently, the assistance given from time to time has had little or no relevance to the realities of the situation at a given point of time and more often than not, such assistance proved to have been not only a drag on the exchequer but in the result infructuous (236th Report 1976-77, V Lok Sabha).

(b) The Committee would urge that one of the approved criteria for determining the CCS should be broad cost analysis. This is essential to curb ad-hocism and prevent malpractices. (Twelfth Report PAC 1985-86, VIII Lok Sabha - Action Taken on 152nd Report VII Lok Sabha).

(c) Inadequacy of the Government machinery to evaluate effectively the f.o.b. realisation and other cost data and putting an almost exclusive reliance on the data furnished by the export promotion councils, has been a glaring shortcoming in the management of the scheme of CCS (152nd Report VII Lok Sabha)".

In response to the above observations of the PAC, the Ministry created a CCS Cell towards the close of 1983-84, to be manned by qualified Cost Accountants, but little real improvement was effected as the following irregularities noticed during audit reveal.

7.3.10 Irregular CCS rates allowed on Engineering goods

(i) Out of a total 77 cases, where CCS rates were allowed, in 40 cases the data was not representative of the industry as it did not cover 80 per cent of the total exports as laid down in the guidelines. The data represented from less than 5 per cent to 70 per cent in the 40 cases. The export promotion council did not obtain data from many exporters despite the fact that all the exporters get themselves registered with the council. Ministry stated in January 1992 that the intention of calling for data from a representative number of manufacturer exporters covering about 80 per cent of the exports was to get as much data as possible and the percentage was not sacrosanct. But, indirect taxes and duties differ from state to state, and representative data from the industry spread over as wide a geographical area as possible within the country was essential, if not sacrosanct, to arrive at a justifiable rate of CCS on an exported Product.

(ii) In 22 cases, the extent of disadvantages to exporters worked out by CCS Cell was far less than that worked out by the export promotion council or the commodity division of the Ministry. In the case of 'Steel balls' the percentage of disadvantage worked out by the Commodity division of the Ministry on the basis of data furnished by Engineering Export Promotion Council was 42.54 per cent whereas the CCS Cell had worked out disadvantage at 16.22 per cent only. The data furnished by the Industry to the Engineering Export Promotion Council was inflated and had not been critically examined by the Council before submission to the Ministry. In 34 cases where CCS was allowed, data was not analysed in the CCS Cell before submission to CARC. Ministry stated in January 1992 that in 34 cases the CCS Cell examined the cost data and furnished their comments in the meeting of CARC where the concerned cases for grant of CCS were considered. Ministry's files examined by

Audit indicated that agenda notes placed before CARC were not accompanied by the comments of CCS Cell.

(iii) In June 1986, the CARC decided to allow CCS at 10 per cent of f.o.b. value on 'Mica Capacitors' only and no CCS was to be allowed for 'other electronic instruments and appliances' including components and electronic devices, becuase no cost data was received in the Ministry from the Engineering Export Promotion Council (EEPC). However, the MDA Main Committee decided in June 1986 to allow CCS at the rate of 15 per cent of f.o.b. value, on an ad hoc basis, from 1.7.1986,on other electronic instruments etc. This was contrary to the guidelines issued by the Ministry, for fixing the rate of CCS only on the basis of representative data. During the period from 1st July 1986 to 31st August 1988 no steps were taken to call for data and analyse it in justification of the 15 per cent CCS, allowed on the exports of these items. Again from 1st April 1989, the CARC decided not to allow CCS in the absence of cost and other data from the industry but, later, on representation from the industry, the MDA Main Committee decided in April 1989 to continue the 15 per cent CCS for a period of six months i.e. from 1st April 1989 to 30th September 1989. After an analysis of the cost data, the MDA Main Committee decided to reduce the CCS rate from 15 per cent to 12 per cent from 1st October 1989 to 31st March 1992. According to the Ministry's calculations only 30 per cent of total exports of these items from the country came within the purview of 15 per cent CCS, since prior to 1st April 1988 exporting units in EPZs and 100 per cent EOUs were not entitled to CCS on their exports. From 1st April 1988, EPZ units and 100 per cent EOUs are also entitled to 50 per cent of the rate of CCS on their exports provided they exercised an option not to avail of the facilities under deemed exports from the DTA. No details were, however, available as to how many units in EPZs and 100 per cent EOUs availed CCS on their exports. From the data compiled by Department of Electronics for the Calendar Year 1988, total export of electronic items from the country was Rs.475 crores and 30 per cent there of worked out to Rs.142.50 crores. Thus, in the absence of cost data, avoidable excess payment of CCS during 1988 at 3 per cent, (15 per cent instead of 12 per cent) on Rs.142.50 crores worked out to Rs.4.27 crores. Ministry stated in January 1992 that a study of cost of electronic components and instruments in units in the public as well as the private sector was made by the Cost Cell of the Ministry in May 1985 for fixation of CCS rates. On the basis of this study, the Commodity Division recommended a CCS rate of 20 per cent for all electronic items and it was decided to allow 15 per cent. This position is not correct as CARC did not allow any CCS on the export of electronic items in the absence of cost data. Further, the agenda note placed before MDA Main Committee indicated that cost data had been received only in respect of Mica Capacitors. The commodity officer had requested for higher CCS for electronic items saying only that they were growth items.

The Ministry stated that since the MDA Main Committee was empowered to take decisions it was not correct to say that there was avoidable payment of CCS. In the absence of justification to show that a higher rate of CCS was necessary to encourage exports, a lower rate would have achieved the exports or removed the deterrent of absence of profits just as well. The extra CCS allowed by Ministry was, therefore, avoidable for the purposes of achieving the exports.

(iv) The CARC decided to allow CCS at 10 per cent of f.o.b.value for the period from 1st April 1989 to 31st March 1992 on all types of 'machine tools'. The rate worked out by the 'CCS Cell' on weighted average was 12.06 per cent. The MDA Main Committee, however, decided to allow CCS at 18 per cent of f.o.b. value on ordinary machine tools and 20 per cent on NC and CNC machine tools without recording any reasons for allowing higher CCS over the rate worked out by the CCS Cell. As worked out by CCS Cell, the element of indirect taxes in machine tools was only 3.81 per cent of f.o.b. realisation. In December 1989, the MDA Main Committee held the view that while a standard percentage could not be fixed for product and market development costs, a minimum should be given. The rate of 12.06 per cent worked out by CCS Cell of the Ministry, included only 3.81 per cent on account of indirect taxes and 1.41, 2.03 and 4.81 per cent towards cost of product development, market development and freight disadvantage respectively. The CCS rate of 18 per cent and 20 per cent allowed on ordinary machine tools and NC and CNC machine tools respectively from 1st April 1989 to 31st March 1992, saying that a minimum towards product and market development costs should be given, was not justified. Ministry stated in January 1992 that higher CCS was allowed based on export potential of a thrust industry and technology upgradation requiring research and development. The Minutes of the MDA Main Committee did not indicate these reasons now given and the guidelines of Ministry for fixation of rates of CCS do not provide for giving higher rates of CCS on the basis of unquantifiable criteria called "potential" or "R & D needed".

(v) In the case of 'drop forged and other hand tools' the total weighted average of disadvantages worked out by the CCS Cell was 10.91 per cent of f.o.b. value. The CARC decided to allow CCS rate at 12 per cent of f.o.b. value for export from 1st April 1989 to 31st March 1992. The MDA Main Committee, however, decided to allow CCS at 15 per cent without recording any reasons for allowing a higher rate over that decided by CARC. The rate allowed by MDA Main Committee was not justified. Ministry stated in January 1992 that MDA Main Committee allowed a higher rate of CCS of 3 per cent more over that recommended by CARC on the basis of its large export potential of a thrust industry which was also labour intensive. However, the minutes of MDA Main Committee did not mention these factors nor were they quantifiable or quantified. No additional incentive, on such grounds, was needed for the purposes of achieving the exports.

7.3.11 *Irregular CCS allowed on Leather goods*

(i) The data submitted by the Council for Leather Exports (CLE) did not cover 80 per cent of exports as provided for in the guidelines for fixation of rate of CCS. It represented only 16 per cent of the exports of 'Leather goods' and 'leather shoe uppers', 26 per cent of leather footwear, 35 per cent of 'harness and saddlery' and 40 per cent of leather garments.

(ii) While analysing the data received from CLE, the CCS Cell of the Ministry observed that data sent by CLE had not been worked out properly and the 3 per cent towards freight disadvantage was asked for on adhoc basis. The calculations of f.o.b. cost, f.o.b. realisation and CCS rate as worked out by CCS Cell were much lower than those arrived at by the Commodity Division of the Ministry on the recommendations of the CLE. In the case of 'industrial leather gloves', where the data represented 62 per cent of the total exports, the Commodity Division of the Ministry had indicated a loss of 27 per cent on f.o.b. realisation whereas the CCS Cell had worked out a profit of 3.85 per cent on f.o.b. realisation. The data submitted by the CLE was, thus, inflated and inaccurate and had not been critically examined before submission to the Ministry. Further in cases where the data indicated a profit in exports, the guidelines, as approved by the Government, provided that CCS be restricted to refund of indirect taxes only. In the case of industrial leather gloves, since the indirect taxes, on weighted average, was 4.60 per cent of f.o.b. realisation, CCS at a rate of 5 per cent of f.o.b. value only could be allowed. Grant of CCS at 18 per cent by air and 12 per cent by other means, from 1st April 1989, which was allowed, was not justified.

(iii) The element of freight disadvantage by air included in the CCS rates was not based on any data on lower freight paid by the exporters from competing countries. In the case of leather footwears, it was allowed at 5 per cent of f.o.b. value whereas in the case of leather garments it was allowed at 6 per cent of f.o.b. value. The weighted unit value realisation in the case of leather footwear, worked out by CCS Cell, was Rs.89.21 per pair and in the case of leather garments it was Rs.1048.26 per piece. In the case of leather footwear, the exporter suffered a freight disadvantage of Rs.4.46 per pair and the exporter of a leather garment suffered disadvantage of Rs.62.90 per piece for the same destination. Since freight is charged on the basis of weight and distance travelled and not on f.o.b. value, the 6 per cent disadvantage by air allowed on the f.o.b. value of leather garments was excessive. The adventitious gain to the exporters on this account was also commented upon in paragraph 12 of the Audit Report for the year 1986-87. The Ministry stated in June 1991 that exports from India, particularly by air were at disadvantage vis-a-vis exports from competing countries which were nearer to the main markets of America and Europe. It was on this consideration that a higher rate of CCS for exports by air was considered necessary taking into account the maximum air freight subsidy (7 per cent of f.o.b.).The Ministry stated that disadvantages on air freight was different for different destinations and it was not possible to fix different rates for different destinations. The Ministry did not take any action on the advice of the Council for Leather exports that the CCS notification could be suitably amended to indicate that the air freight subsidy element of CCS should be 6 per cent or 7 per cent of f.o.b. value of export, as the case may be, but not exceeding the actual freight paid. Prior to 1st April 1989, freight disadvantage by air was 7 per cent of f.o.b. value in the case of leather footwear and leather harness and saddlery. It was reduced to 5 per cent and 4 per cent respectively from 1st April 1989. If reduction could be made in these two categories, it could also be made in other categories as the freight charged by airlines was not based on f.o.b. value. The CARC's decision to allow air freight subsidy at 6 per cent of f.o.b. value or 40 per cent of actual air freight paid, whichever was less, was not accepted by the MDA Main Committee but it did not record any reasons. All this resulted in higher CCS rates being allowed, than justified.

7.3.12 Other irregularities in payment of CCS

(i) Hand-knotted art silk or synthetic carpets did not qualify for cash compensatory support (CCS) in terms of instructions issued by the Ministry of Commerce in June 1986 allowing CCS on certain categories of Handicrafts and Woolen and Silk carpets. The CCIE had, in October 1977, in consultation with Ministry of Textiles, issued a list of sythentic 'made-up' articles, which included 'synthetic carpet' as one such article eligible for import replenishment licence. However, in the Import Policy for 1985-90, synthetic 'made ups' and 'synthetic carpets' were classified separately for eligibility of import replenishment licence and consequently 'synthetic carpet' was excluded from the list of synthetic 'made up' articles. In November 1987, it was decided by the Headquarters classification Committee (HQCC) of the Chief Controller of Imports and Exports (CCIE) that 'synthetic carpets' did not qualify for classification as 'made-ups'. This view was endorsed by Cash Assistance Review Committee (CARC) in May 1988.

In March 1989 the HQCC decided to classify 'hand-knotted synthetic carpets' as 'made ups' for the purpose of CCS though this could not be the classification under the Import policy for the years 1985 to 1990.

In some ports, CCS on exports of hand knotted synthetic carpets was fixed in accordance with decision of HQCC of March 1989 while authorities in other ports pointed out the irrationality of the decision taken in March 1989. In May 1989, the HQCC reversed its decision of March 1989 and stated that hand knotted sythetic carpets were not to be classified as 'made ups' for purposes of CCS.

On representations received from the exporters, the Ministry decided in September 1989 to allow CCS at 10 per cent of f.o.b. value (on an ad-hoc basis) on the exports of hand-knotted art silk or synthetic carpets from 16th March 1989 to 30th September 1989. In October 1989, after examining cost data, the Ministry issued orders allowing CCS at 15 per cent for the period from 1st October 1989 to 31st March 1992. CCS at 10 per cent in respect of exports made during the period 16th March 1989 to 30th September 1989 was allowed to remain and was not raised. CCS paid on the exports prior to 16th March 1989 were to be recovered.

The JCCIE, New Delhi recovered Rs.10 lakhs from exporters who had been paid CCS on exports prior to 16th March 1989. Similar recovery of Rs.2.40 crores of CCS paid by Dy.CCIE, Srinagar was, however, pending (July 1991). The extra CCS paid, at 15 per cent instead of 10 per cent during the period 16th March 1989 to 30th September 1989 had not been computed. The matter was reported to the Ministry in August 1991; their reply is awaited (November 1991).

(ii) Firm 'A' registered in May 1986 as "Manufacturer Exporter" with the Apparel Export Promotion Council, exported readymade garments manufactured by others but claimed Cash Compensatory Support (CCS) amounting to Rs.15.94 lakhs, which was paid during the years 1986-87 to 1988-89.

Since the firm was not registerd as a "merchant exporter" but only as "manufacturer exporter" it was not entitled to the benefits of CCS on exported goods manufactured by others.

On the matter being pointed out by Audit, though the exporters were advised (March 1990) to refund the inadmissible CCS, subsequently, the Chief Controller of Imports and Exports, (CCIE) New Delhi stated (February 1991) that the firm was registered as merchant exporter also and was entitled to the refund. A Registration-cum-Membership Certificate of being a "merchant exporter" was issued to the firm only in July 1990 on the basis of application made by it in April 1990 and no retrospective benefit of CCS was admissible. The Ministry stated (September 1991) that out of the total over payment of Rs.15.94 lakhs, a sum of Rs.9.21 lakhs had already been recovered from the firm, and the balance amount would be recoverd as and when further CCS claims are preferred by the firm.

(iii) In fifteen cases of deemed export, transformers were supplied by a firm to a State Electricity Board for use in projects financed by the International Development Association, but normal rate of CCS (instead of 75 per cent) was paid during the years 1981-84 and 1987-88. This resulted in an excess payment of CCS amounting to Rs.9.71 lakhs. The Department accepted the mistake and directed the firm, in December 1990, to refund an amount of Rs.11.13 lakhs paid inadvertently which included the excess payment of Rs.9.71 lakhs.

(iv) CCS amounting to Rs.3.22 lakhs was paid to two firms located in Kandla Free Trade Zone (KFTZ) Gandhidham, on their exports, during 1988-89 of readymade garments manufactured in the factories located in KFTZ. But as no CCS is payable on exports from units in Free Trade Zone, the payment of Rs.3.22 lakhs made to the two firms was irregular.

Ministry stated in November 1991 that the audit objection has been accepted and recovery was being effected from the amounts payable to the two firms. Report on recovery of CCS was still to be received (December 1991).

(v) On exports of fruit juices, pulps, jams and concentrates, Cash Compensatory Support (CCS) at 15 per cent of f.o.b. value was payable from July 1986 to March 1989. The CCS was continued at 15 per cent for 'mango pulp' and 'mango concentrate'. On other exports CCS was discontinued from April 1989. However, from January 1990 CCS was extended at the rate of 5 per cent of f.o.b value on export of 'papaya concentrate' and 8 per cent on 'pine apple juice', 'guava pulp and concentrate', 'strawberry jam/rasberry jam', 'pine apple titbits/slices' and 'mango juice'.

Analysis of the f.o.b realisation vis-a-vis disadvantages suffered by the exporters on which CCS was sought to be justified is given below:

(Value: Rs.1 M.T.)

	Pine apple juice	Guava pulp and concentrate	Straw berry jam	Rasberry jam slices	Pineapple titbits/ trate	Mango juice	Mango concen-	Mango pulp
F.O.B Cost of export	11648	10642	14749	12113	11648	7226.68	14675	14120
F.O.B realisation	7339	10062	12207	11172	7339	5855.66	13629	13602
Short fall in realisation in percentage	58.71	5.76	20.82	8.42	58.71	21.34	7.67	3.81
Disadvantages as percentages of export cost								
Unrefunded indirect taxes	3.76	4.62	4.98	5.63	3.76	5.97	3.33	3.43
Incidence of cost of Product development	--	0.18	0.08	0.09	--	1.06	1.32	0.13
Incidence of cost of special market thrust	--	0.40	1.39	1.79	--	2.75	2.93	0.29
Air freight disadvantage	10.22	7.45	4.91	6.71	10.22	12.59	5.50	5.51
Total disadvantage (Percentage)	13.98	12.65	11.36	14.22	13.98	22.37	13.08	9.36

In the CCS cell while analysing the cost data it was noticed that freight disadvantage on export of 'mango pulp and concentrate' was claimed with reference to exports by South Africa and lvory Coast though they were not the major competing countries. The competing countries were Brazil, Philippines and Peru and exports of 'mango pulp and concentrate' from India were mainly to Middle East countries. The disadvantages on export of "mango pulp" and "mango concentrate" excluding freight disadvantage worked out to only 3.85 per cent and 7.58 per cent respectively and hence grant of cash assistance at 15 per cent on the exports was not justified.

Ministry stated in July 1990 that mango constituted one of the most important item of exports. The high cost of packaging material as well as local transportation cost were not considered. The export of mango pulp and concentrate would benefit a large section of population belonging to low and very low income groups which were engaged in producing mango and rendering other services connected therewith. The Ministry added in December 1991 that CCS was decided on certain guidelines as well as on other factors applicable to the item in question and the minutes of meetings normally did not reflect every factor on which the CCS was allowed. The reply is not tenable as the records do not show that the rate was decided after taking into account above mentioned factors which apply equally to all perishable agricultural exports where CCS was given at 8 per cent at the most and not 15 per cent. There was also nothing on record to show that the Cash Support received by the exporters was passed on to the low and very low income groups. According to a study conducted by Indian Institute of Foreign Trade (IIFT), unit value realisation on export of fruits (mainly mango) had appreciated.

According to the latest data furnished by Agricltural and Processed Food Products Export Development Authority on export of mango pulp and mango concentrate during the period April 1989 to December 1990 valued Rs.65.53 crores. Excess CCS at

15 per cent instead of at 8 per cent, worked out to Rs.4.58 crores.

(vi) A firm dealing in electronic components and devices was paid CCS and excise-duty rebate amounting to Rs.6.44 lakhs. But the items exported were not electronic components or devices. On being pointed out by audit in June 1987, Rs.6.44 lakhs was recovered from the exporter in December 1988.

(vii) On deemed exports of spares for Electrostatic Precipitators by a firm CCS was paid at rates for precepitators at higher rate than for deemed exports. On being pointed out in audit in 1986-87 in the inspection report for 1986-87, excess amount paid amounting to Rs.2.72 lakhs was recovered by adjustment in September 1989.

(viii) Because export duty paid was not deducted the net f.o.b. value was computed in excess and CCS was paid in excess by Rs.2.72 lakhs. The department stated in July 1990 that a sum of Rs.1.96 lakhs had been recovered from the exporter and the balance amount would be recovered, as and when further claims are received from the exporter.

(ix) The Regional Office of CCIE, Bombay did not reconcile the payments of CCS made during the period September 1978 to March 1990 made by issue of cheques amounting to Rs.2453.11 crores, with the bank statements supported by paid cheques. The Pay and Accounts Officer of the Regional office stated (March 1991) that incorrect and incomplete weekly list of payments prepared in the regional office had been brought to the notice of the Chief Controller of Accounts in New Delhi but reconciliation had not been done in the Regional Office.

(x) The internal audit conducted by the Controller of Accounts, Ministry of Commerce revealed overpayments of CCS to the extent of Rs.10.86 crores which were still outstanding for recovery. Out of Rs.10.86 crores, Rs.7.82 crores were in the office of JCCIE, Bombay, Calcutta, Kanpur, Madras and New Delhi. Paid vouchers in support of payment of CCS had not been received by PAO Bombay and Madras from August 1989 onwards and March 1990 onwards involving payments to the extent of Rs.900 crores and Rs.70 crores respectively.

(xi) Non-production of records to Audit

51404 files of payment of CCS relating to the years from 1977-78 onwards, which were requisitioned by Audit during the period 1979-80 to 1990-91 (5/90) have not been made available so far (May 1990). A list of outstanding cases was supplied to the Department in November 1986 and matter was taken up with CCIE, New Delhi. Jt. CCI&E, Bombay stated that 529 files relating to the years 1977-78 and 1978-79 involving payment of CCS of Rs.18.36 crores had been destroyed. Destruction of files requisitioned by Audit contravened the provisions in General Financial Rules.

(xii) The overpayments of CCS made in the office of CCI&E in some of the stations in India which were pointed out in audit amounted to Rs.10.37 crores and recoveries effected amounted to Rs.0.65 crore. The balance amount to be recovered was Rs.9.72 crores as per details given below:

(Rs. in Lakhs)

Year of payment	Delhi	Bombay	Madras	Calcutta	Kanpur	Total
Overpayments of CCS						
1986-87	9.62	21.60	162.97	8.72	2.22	205.13
1987-88	2.15	69.40	28.57	0.96	161.31	262.39
1988-89	60.45	14.39	83.81	3.87	24.74	187.26
1989-90	127.81	47.09	79.17	3.87	124.10	382.04
Total	200.03	152.48	354.52	17.42	312.37	1036.82
Recoveries of overpayments effected						
1986-87	6.52	10.14	9.71	Nil	2.12	28.49
1987-88	0.32	8.80	1.86	0.01	1.69	12.68
1988-89	1.30	3.39	5.51	0.02	5.21	15.43
1989-90	2.92	5.01	Nil	0.01	Nil	7.94
Total	11.06	27.34	17.08	0.04	9.02	64.54

	Recoveries still to be effected					
1986-87	3.10	11.46	153.26	8.72	0.10	176.64
1987-88	1.83	60.60	26.71	0.95	159.62	249.71
1988-89	59.15	11.00	78.30	3.85	19.53	171.83
1989-90	124.89	42.08	79.17	3.86	124.10	374.10
Total	188.97	125.14	337.44	17.38	303.35	972.28

Report on recovering of balance of overpayments is still awaited.

7.3.13 Non-fulfilment of export obligations

(i) The Ministry introduced a number of changes in the Import Export Policy during the years 1985-90 by introducing Import Export Pass Book Scheme to serve as a single all purpose duty free import licence. It raised the period allowed to discharge export obligation from six months to twelve months for machinery and turn key projects and to nine months in other cases except in the case of video/audio cassettes. It enlarged the list of items where input and output norms had been prescribed, constituted Regional Advance Licencing Committees and allowed bonds to ensure exports by bank guarantee. The audit of licences issued by the regional offices of the CCIE was conducted by the Controller of Aid Accounts and Audit under the Ministry of Finance, New Delhi, which revealed the following irregularities.

(ii) On 12 cases advance licences issued during the years 1984-85 and 1985-86, export obligation for Rs.11.31 crores was not fulfilled though the period allowed on making exports had expired.

(iii) In one case, export obligation was redeemed by the licencing office without obtaining the original bank certificates showing the realisation of foreign exchange against the exports made in discharge of export obligation. The unfulfilled export obligation was for Rs.2.41 crores. Ministry stated in January 1992 that presently all replenishment benefits are given only after the proof of realisation is produced. Action taken to remedy the default on Rs.2.41 crores was not intimated.

(iv) Fifty four firms were declared to have defaulted on export obligation for Rs.31.73 crores against the licences issued to them during the years 1982-83 to 1986-87. The customs duty of Rs.5.19 crores was not recovered.

(v) As on 31 December 1989, 3254 objections pertaining to 17 regional offices of CCIE in respect of export linked import licences issued were outstanding for settlement in the office of Controller of Aid Accounts and Audit, New Delhi. Ministry stated in January 1992 that detailed guidelines for dealing with default in the fulfilment of export obligation had been laid down and also that the office of CCIE had requested for the detailed break up of 3254 objections so that the matter could be pursued with the respective Licensing offices. The reply was silent on the inaction for two years on the objections raised by the Controller of Aid, Accounts and Audit.

7.3.14 Non realisation of foreign exchange proceeds from exports

(i) The PAC in their 111th and 129 th Report (Seventh Lok Sabha) dealing with paragraph 3 of Audit Report 1979-80 on the working of the office of the Joint Chief Controller of Imports and Exports (Central Licensing Area) (JCCIE), New Delhi, observed that there was no fool proof system of follow up in the CCIE to ensure that foreign exchange was actually realised against exports on which CCS was given. The Committee recommended that effective steps should be taken to ensure timely realisation of foreign exchange earnings of exporters and that a foolproof procedure be evolved at an early date so that there was a close coordination between the RBI and the CCIE in keeping watch over foreign exchange realisation against exports on which CCS was given.

(ii) On 9547 cases of exports, based on statements sent by RBI to JCCIE, New Delhi, Bombay, Calcutta and Kanpur about non realisation of Foreign exchange earnings, the amount outstanding was more than Rs.125 crores (Table 37) by the end of 1987-88. The amount is increasing year after year. On being asked about action taken in 33 cases selected for check in the office of JCCIE New Delhi amounting to Rs.24.24 crores and pertaining to the years 1982-83 to 1987-88, the JCCIE, New Delhi stated in October 1990 that these cases were very old and they were trying to locate the files. Thus, in the absence of a proper system to watch export realisation, the incentives and concessions became recoverable or adjustable from the exporters and action was also to be initiated for infringement of foreign exchange regulations. But no action was apparently taken to safeguard national interest.

(iii) On enquiry by Audit about the system being followed for recovering incentives paid towards International Price Reimbursement on aluminum, steel etc. going into engineering goods exports where foreign exchange had not been realised, the Engineering Export Promotion Council stated in December 1989 that they do not receive any details from RBI on outstanding Foreign exchange realisations. They stated that in the absence of instructions from the Ministry of Commerce for effecting recovery of incentives in such cases, they had not taken any action. The Ministry stated in January 1992 that the cases pointed out in audit have been forwarded to the concerned Licensing Offices for taking necessary action. The Ministry also stated that grant of incentives had not been linked to realisation of foreign exchange. However, action to recover incentives paid would be taken if non-realisation of foreign exchange was the result of fraudulant action on the part of the exporter. The reply was silent on action to verify exports in all cases where IPR incentive was paid and the need for national interest being safeguarded by Export Promotion Council whose right to claim incentives flows only from its duty to safeguard foreign exchange realisation.

(iv) For recovery of duty draw-back from exporters, where foreign exchange was not realised, there was no system of watching the realisation.

Table 37

(Referred to in para 7.3.14(iii)

Outstanding export bills of un realised foreign exchange in respect of selected regional offices of CCI&E.

Year	JCCI&E Bombay No.of items	Amount Rs. (Crores)	$	£	JCCI&E Calcutta No.of items	Amount Rs. (Crores)	$	£	JCCI&E Kanpur No.of items	Amount Rs. (Crores)	$	£
upto 1980	2461	10.87	1549000.04	237532.20	400	1.79	2703832.57	84735.04	344	1.35	314116.47	6599.65
1981	456	4.95	353473.64	--	171	0.78	2907171.88	1908.69	124	0.78	66529.35	1965.25
1982	438	3.06	262648.85	24361.87	128	0.66	179004.37	--	112	0.79	53840.63	18951.00
1983	428	5.86	185808.85	50538.17	75	0.36	164499.54	119350.18	162	1.02	151697.22	--
1984	456	10.04	322855.65	299.35	130	0.67	428753.20	83177.50	163	0.91	84808.41	43808.98
1985	512	19.26	3667761.29	--	169	1.15	2223097.94	37105.20	172	0.97	44402.98	--
1986	681	12.50	1887846.17	--	163	1.39	544504.77	44673.00	177	1.00	186246.80	6271.18
1987	441	9.91	249435.35	380.00	283	2.64	628958.88	--	260	1.48	175871.22	72759.42
1988									3	0.04	---	---
Total	5873	76.45	8478829.84	313111.59	1519	9.44	9779823.15	370949.61	1517	8.34	1077513.08	150355.48

Year	JCCI&E New Delhi No.of items	Amount Rs. (Crores)	Aus.$	SEK	NKR	KR	SF	Grand Total No.of items	Amount Rs. (Crores)	$	£	Aus.$	SEK	NKR	KR	SF
upto 1980								3205	14.01	4566949.08	328866.89					
1981								751	6.51	3327174.87	3873.94					
1982	230	11.57	18500					908	16.08	495493.85	43312.87	18500				
1983	44	0.92						709	8.17	502005.61	169888.35					
1984	5	0.03						754	11.65	836417.26	127285.83					
1985	48	0.83						901	22.22	5935262.21	37105.20					
1986	10	0.06				777		1031	14.96	2618597.74	50944.18					
1987	301	17.92	5684	210612	197000		8155	1285	31.95	1054265.45	73139.42	5684	210612	197000	777	8155
1988								3	0.04							
	638	31.33	24184	210612	197000	777	8155	9547	125.59	19336166.07	834416.68	24184	210612	197000	777	8155

Abbreviations

$	US dollar
£	UK Pond
SEK	Swedish Kroner
NKR	Norwegian Kroner
KR	Kroner
SF	Swiss France

7.3.15 *Import licences to registered exporters and incentives*

The value of export linked import licences granted to registered exporters increased three fold from Rs.2849 crores in 1985-86 to Rs.8469 crores in 1988-89 (Table 38). In comparison, the value of the licences issued in 1980-81 was Rs.1422 crores. The value of import licences as a percentage of imports during the year has gone up from about 40 per cent in early eighties to around 50 per cent in recent years (see Table 1). But of the import licences issued, the share of value of import licences issued for export promotion rose from 26.63 per cent in 1980-81 to 33.85 per cent in 1985-86 and 61.38 per cent in 1988-89. In other words while 10 per cent of imports (26 per cent of 40 per cent) was linked to exports in 1980-81 about 30 per cent of imports (61 per cent of 50 per cent) was linked to export in 1988-89. The share of export linked import licences issued as percentage of exports during the year increased from 21.19 per cent in 1980-81 to 41.73 per cent in 1988-89 indicating that 30 per cent of imports were linked to 40 per cent of exports in 1988-89 as against 10 per cent of imports being linked to 20 per cent of exports in 1980-81.

Table 38

(Referred to in para 7.3.15)

Total import licences and licences issued to registered exporters.

(Rs. crores)

Year	Value of total licences issued	Value of licences issued to exporters	Percentage of column 3 to 2	Value of total exports	Percentage of column 3 to 5
1	2	3	4	5	6
1980-81	5340	1422	26.63	6711	21.19
1981-82	7755	1763	22.73	7806	22.59
1982-83	7166	1964	27.40	8803	22.31
1983-84	7030	2294	32.63	9771	23.48
1984-85	8255	2786	33.75	11744	23.72
1985-86	8417	2849	33.85	10859	26.24
1986-87	9213	3553	38.56	12452	28.53
1987-88	10415	4952	47.55	15741	31.46
1988-89	13797	8469	61.38	20295	41.73

Source:Press note import and export policy April 1990-March 1993 and Annual Reports of Ministry of Commerce

Ministry stated in January 1992 that during the years 1985-86 to 1988-89, the general shift was more towards advance licensing and Diamond Imprest Licensing Schemes. The country as a whole was getting more oriented towards earning import licences through exports rather than depend on release of free foreign exchange for imports. But as between non-import linked cash incentives and import incentives, it is not established that this shift (which hurts indigenous industry) increases net export earnings more. Also whether this shift is within a plan and time frame in which such increase in exports and decrease in imports (as is not linked to exports) will take place is not mentioned. The reply does not state how the export linked export incentives are linked to overall policy, if any, on bridging current and accumulated trade imbalances and planning for using export incentives to bridge the trade gap and wipe out accumulated trade deficit. In the absence of such a plan towards which the incentives work their justification is incomplete.

7.3.16 Role of Export Promotion Councils(EPCs)

Export Promotion Councils (EPCs) perform both advisory and executive functions. These councils are also the registering authorities under the Import Policy for registered exporters. The EPCs are expected to perform a number of activities.

Important among these are:

(i) Providing a liason between the Government and its agencies and the exporting community and representing to the Government their difficulties and greivances for redress and for introducing policy and procedural changes.

(ii) Providing to the Government information on export performance by product groups and market groups with a view to enabling the Government to review its policies and take timely corrective action.

(iii) Distributing and monitoring quotas, screening cost data and certifying basis for grant of incentives.

(iv) Providing market and other information services to the exporting community.

Under Market Development Assistance (MDA), grant-in-aid to EPCs is provided for code and non-code activities as per code of grant-in-aid laid down by the Ministry of Commerce. Non-code activities refer to administrative expenditure of the EPCs and code activities to promotional expenditure on market research or studies, publicity etc. Annual grant-in-aid provided to EPCs and other market development organisations during 1987-88 and 1988-89 was around Rs.15 crores.

In April 1987, the Ministry of Commerce entrusted to the Indian Institute of Management (IIM), Ahmedabad, the task of undertaking a critical review and evaluation of Export Promotion Councils and recommending measures for making them more effective. The institute submitted its report with recommendations to the Ministry in September 1987. The study conducted by the instutute found that the performance of EPCs in the following areas, barring occasional exceptions, was inadequate.

(i) Providing effective market and other information services in the context of an increasingly competitive and complex trade environment.

(ii) Providing marketing and promotional services in conformity with the realistic needs of exporters.

(iii)Upgrading technology, skills, attitudes and capabilities of exporting community with a view to making them more effective in securing continuing gains in export performance.

The Institute recommended the creation of a viable and committed export sector. In response to an audit enquiry about the action taken on the report, the Ministry stated in September 1990 that the recommendations of the IIM were under consideration of the Government.

7.3.17 Cost of earning foreign exchange.

(i) The cost of earning foreign exchange in the five commodity sectors of electronics, automobiles, bicycles, hand tools and leather goods, was computed from some of the data provided by leading exporters for the years 1987-88 to 1989-90 and they revealed as follows (Table 39).

Table 39

(Referred to in Para 7.3.17)

Export Concessions/incentives allowed to exporters of selected commodities during 1987-88 to 1989-90

(Value Rs. lakhs)

Name of the firm	1987-88			1988-89			1989-90		
	Net Foreign Exchange earned	Value of total concessions obtained	Percentage (2 to 1)	Net Foreign Exchange earned	Value of total conce-ssions obtained	Percentage (5 to 4)	Net Foreign Exchange earned	Value of total conce-ssions obtained	Percentage (8 to 7)
	1	2	3	4	5	6	7	8	9
Electronics									
A	--	--		690.89	4155.99		129.79	7057.61	
B	0.38	1.70		38.51	93.94		(-) 4.48	84.45	
C	278.45	1249.07		339.90	1580.30		243.96	1021.05	
D	70.07	106.10		(-)51.09	82.72		76.41	167.85	
E	(-) 7.69*	8.57		63.75	204.19		19.44	29.95	
F	218.66	349.64		550.67	1963.13		540.29	923.53	
G	68.47	26.11		27.12	170.74		25.96	81.23	
H	705.15	1496.36		827.63	863.77		326.37	1811.29	
I	32.71	23.06		12.79	240.87		182.05	167.30	
J	--	--		928.12	1632.14		1896.47	3646.72	
K	--	--		307.28	499.78		728.91	658.03	
L	402.55	353.49		449.61	395.98		79.51	261.60	
M	144.71	87.33		218.39	126.78		152.57	158.08	
N	1363.86	128.22		2423.60	391.63		2186.21	505.42	
Total	3277.32	3829.65	116.85	6827.17	12401.96	181.66	6583.46	16574.11	251.75

* Outgo of FE was more than FE earned in a year

	1	2	3	4	5	6	7	8	9
<u>Hand Tools</u>									
A	323.21	164.72		275.25	230.56		400.13	260.40	
B	279.43	92.13		396.98	166.34		513.27	212.02	
		82.32			93.28			108.19	
C	634.30	282.10		509.41	235.83		1312.11	553.63	
D	240.46	157.64		309.80	174.65		523.51	265.57	
E	24.15	11.83		107.98	60.15		319.18	170.32	
F	70.32	31.24		108.83	40.38		141.89	63.71	
G	79.12	36.58		115.54	51.20		134.16	46.16	
H	4.39	1.57		156.05	61.28		31.96	12.86	
Total	1655.38	860.13	51.96	1979.84	1113.67	56.25	3376.21	1692.86	50.14
<u>Automobiles</u>									
A	1127.06	414.21		1346.34	449.20		1599.61	809.67	
B	491.62	195.51		669.33	270.21		1084.05	418.57	
C	88.08	25.43		242.32	46.56		302.46	71.57	
Total	1706.76	635.15	37.21	2257.99	765.97	33.92	2986.12	1299.81	43.53
<u>Leather Goods</u>									
A	812.27	761.33		1425.19	745.15		1679.45	618.12	
B	586.52	283.25		1109.85	648.82		1136.98	596.27	
C	843.00	323.00		1202.00	750.00		1849.00	974.00	
D	60.39	39.72		100.68	50.20		79.97	28.88	
E	915.91	316.75		868.72	417.11		1195.85	650.77	
F	991.61	521.79		1349.88	549.50		1558.52	726.99	
G	2042.04	849.58		1976.25	1008.13		2759.91	1104.95	
H	1340.40	1153.15		2681.81	757.48		1514.24	471.11	
I	510.03	124.87		543.46	301.50		570.61	243.04	
J	810.10	366.12		1079.26	455.12		1703.62	622.43	
K	521.87	161.83		291.76	130.21		495.60	196.92	
L	1.17	7.02		1.83	96.67		34.13		
M	161.80	53.73		174.25	69.11		281.30	97.97	
N	456.81	139.90		318.97	138.14		513.52	187.81	
O	197.00	60.57		146.00	57.38		303.00	107.60	
P	597.00	166.49		516.77	217.26		1214.29	411.14	
Q	643.03	164.64		741.86	193.27		1002.72	294.03	
R	208.28	49.31		139.83	33.48		315.33	77.70	
S	325.37	62.91		505.58	100.27		564.18	113.29	
T	163.20	29.32		165.57	33.63		148.64	18.47	
U	16.82	3.93		68.37	10.33		54.47	9.62	
Total	12203.45	5633.36	46.16	15413.08	6667.92	43.26	19037.87	7585.24	39.84

	1	2	3	4	5	6	7	8	9
Bicycles and Parts									
A	114.62	132.37		110.87	86.89		132.03	111.04	
B	60.29	80.34		144.22	93.66		144.01	92.01	
C	203.02	222.70		210.15	135.49		239.51	79.74	
D	154.15	134.34		315.44	184.40		387.90	248.34	
E	548.86	426.42		595.60	372.73		1154.46	469.03	
F	1338.00	677.00		1441.00	565.00		2280.00	983.00	
G	265.78	128.86		319.67	87.23		NA	NA	
Total	2684.72	1802.03	67.12	3136.95	1525.40	48.63	4337.91	1983.16	45.72

Source: Data Collected by Audit from leading exporters

(ii) Electronic goods

Incentives and concessions given to exporter 'N' increased from Rs.391.63 lakhs in 1988-89 to Rs.505.42 lakhs in 1989-90. The value of his exports decreased from Rs.3354.11 lakhs to Rs.2844.36 lakhs respectively. In the case of exporter 'H' while the value of incentives and concessions obtained increased from Rs.863.77 lakhs to Rs.1811.29 lakhs, the value of his exports decreased from 1191.35 lakhs to Rs.1130.01 lakhs during the years 1988-89 to 1989-90.

In 28 out of 39 cases of 1987-88, 1988-89 and 1989-90 the concessions and incentives received by the exporters was more than the net foreign exchange earned by them. In one case the imports during the years 1987-88 to 1989-90 were more than the exports and there was net outgo of foreign exchange. The value of total concessions and incentives received by the exporters as a percentage of the net foreign exchange earned in the cases studied increased from 116.85 per cent in 1987-88 to 181.65 per cent in 1988-89 and 251.75 per cent in 1989-90.

(iii) Hand tools

In eight cases, the value of concessions and incentives received by the exporters as percentage of net foreign exchange earned went up from 51.96 per cent in 1987-88 to 56.25 per cent during 1988-89. However, during 1989-90 it decreased to 50.14 per cent.

(iv) Automobiles

In three cases, the value of concessions and incentives received by the exporters as percentage of net foreign exchange earned decreased from 37.21 per cent in 1987-88 to 33.92 per cent in 1988-89. However, it again went up to 43.53 per cent in 1989-90.

(v) Bicycle and parts

In three out of the 7 cases of 1987-88, the value of concessions and incentives received by the exporters was more than the net foreign exchange earned. The value of total concessions and incentives received by the exporters as percentage of net foreign exchange earned decreased from 67.12 per cent in 1987-88 to 48.63 per cent in 1988-89 and 45.72 per cent in 1989-90.

(vi) Leather goods

In 21 cases studied, the value of concessions and incentives received by the exporters as a percentage of net foreign exchange earned decreased from 46.16 per cent in 1987-88 to 43.26 per cent in 1988-89 and to 39.84 per cent in 1989-90.

(vii) Thus, during the years 1987-88 to 1989-90 for earning net foreign exchange equivalent to Rs.100 the concenssions and incentives allowed was considerably higher (upto 250 per cent) in the case of export of electronic goods as compared to the other four category of goods (upto 67 per cent). The Ministry of Finance (CBEC) stated in January 1992 that duty drawback which is given to the exporter is not an incentive or a concession but only a refund of exported products. The f.o.b. value is indicative of the price for the product realised from the foreign buyer in foreign exchange. 60 to 250 per cent of this price is being made out to be the price in India. The Ministry needs to verify whether the f.o.b. value is related to the price abroad and whether 160 to 350 per cent thereof is the price in Indian currency. If not, the excessive unjustified incentive is going to benefit the foreign buyer or agencies in India associated with the exports. If foreign buyer is benefited to that extent foreign exchange realisation comes down which is avoidable. The PAC's recommendation in para 2.1 ante was aimed at such avoidance.

7.3.18 Summing up

- **Annual trade deficit has been a recurring feature of the Foreign Trade. Growth rate of exports had not been fast enough to reverse the trade deficit which increased from Rs.5390.52 crores in 1984-85 to Rs.7898.50 crores in 1988-89. The trade surplus with Rupee Payment Area (RPA) countries only necessitated grant of technical credit to the countries receiving Indian exports involving budgetary out go. The export promotional strategies did not result in development and holding of identified markets in the identified countries, especially in the General Currency Areas. Also growth in exports did not keep in step with domestic growth. The export targets were apparently not fixed so as to ensure that export growth kept in step with domestic growth. The export promotion incentives were not dovetailed to fixing of appropriate export targets for achievement (Para 7.3.6(iv) and 7.3.6(vii).**

- **Ministry stated that lack of export efforts may not be the reason for 581 large companies importing more than their exports. Clearly efforts made at target fixation for exports at appropriate percentages of domestic production** appropriate percentages of domestic production along side the grant of export incentive measures were not adequate. Export from the Export Processing Zones (EPZs) was less than 3 per cent and from the 100 per cent Export Oriented Units (EOUs) less than 2 per cent of the total exports. Exports by Public sector enterprises were 49.65 per cent of the total exports from the country in the year 1984-85, but declined to 24.13 per cent in 1988-89 (Para 7.3.6(viii) and 3.6(ix).

- On the stagnation in exports of engineering goods, the Ministry stated that it was due to spiralling recession, declining world trade and increasing protectionism in our trading partners. The first two reasons are only descriptive of fall in demand level but do not deny existence of competitive trade which was the frame work in which the incentives were determined. The third factor must also have been taken into account while granting export incentives, as protectionism cannot be overcome by any level of cash incentives which must have been aimed at non-protected markets (Para 7.3.7).

  Ministry stated in January 1992 that many of the package of measures for boosting engineering exports announced in 1986 were actually implemented much later while some were not implemented at all. There was a gestation period for import of capital goods, development of products, market etc. The concessions were extended to products constituting a small percentage of engineering goods. The reply does not explain fall in performance below target feasible without the additional incentives not fully given or given late (Para 7.3.7(iii).

- Ministry stated in January 1992 that our Embassies and HIgh Commissions and our Trade Commission Organisations in GCA countries do make considerable efforts in promoting exports to such countries. The results of such efforts in terms of long term agreement on exports to GCA countries have not been given in the reply of the Ministry (Para 7.3.7(iv).

- India's share of export of leather and leather products in the world market continued to be marginal (2.67 per cent in 1987), despite the rich availability of raw material and low labour costs and exports continued to be of low value added items. This was despite leather and leather products being identified as a thrust sector of export and greater flexibility allowed in the Import Export Policy. RPA countries accounted for 25 per cent of the exports. (Para 7.3.8 (ii)(iii)

- Ministry stated in January 1992 that the intention of calling for data from a representative number of manufacturer exporters covering about 80 per cent of the exports was to get as much data as possible and the percentage was not sacrosanct. But, indirect taxes and duties differ from state to state and representative data from the industry spread over as wide geographical area as possible within the country was essential, if not, sacrosanct, to arrive at a justifiable rate of CCS on our export product (Para 7.3.10(i).

- The Ministry stated that since the MDA Main Committee was empowered to take decisions it was not correct to say that this was avoidable payment of CCS. In the absence of justification to show that a higher rate of CCS was necessary to encourage exports, a lower rate would have achieved the exports or removed the deterrent of absence of profits just as well. The extra CCS allowed by the Ministry was, therefore, avoidable for the purposes of achieving the exports (Para 7.3.10(iii).

- Ministry stated in January 1992 that higher CCS was allowed based on export potential of a thrust industry and technology upgradtion requiring research and development. The minutes of the MDA Main Committee did not indicate these reasons now given and the guidelines of Ministry for fixation of rates of CCS do not provide for giving higher rates of CCS on the basis of unquantifiable criteria called "Potential" or "R & D needed" (Para 7.3.10(iv)).

- Ministry stated in January 1992 that MDA Main Committee allowed a higher rate of CCS of 3 per cent more over that recommended by CARC on the basis of its large export potential of a thrust industry which was also labour intensive. However, the minutes of MDA Main Committee did not mention these factors nor were they quantifiable or quantified. No additional incentive, on such grounds, needed for the purpose of achieving the exports (Para 7.3.10(v).

- The overpayments of CCS made in the offices of CCIE in some of the stations in India which were pointed out in audit amounted to Rs.10.37 crores and recoveries effected amounted to Rs.0.65 crore. The balance amount to be recovered was Rs.9.72 crores (Para 7.3.12(x).

- Ministry stated in January 1992 that detailed guidelines for dealing with default in the fulfilment of export obligation had been laid down and also that the office of CCIE had requested for the detailed breakup of 3254 objections so that the matter could be pursued with the respective licensing offices. The reply was silent on the inaction for two years on the objections raised by the Controller of Aid Accounts and Audit (Para 7.3.13(v).

- 9547 items pertaining to JCCIE Bombay, Calcutta, Kanpur and New Delhi revealed that the outstanding foreign exchange to be realised amounted to more than Rs.125 crores at the end of 1987. On being asked about action taken in 33 cases selected for check in the office of JCCIE New Delhi amounting to Rs.24.24 crores and pertaining to the years 1982-83 to 1987-88, the JCCIE, New Delhi, stated in October 1990 that these cases were very old and they were trying to locate the files. Thus, in the absence of a proper system to watch export realisation, the incentives and concessions became recoverable or adjustable from the exporters and action was also to be initiated for infringement of foreign exchange regulations. But no action was apparently taken to safeguard national interest (Para 7.3.14(ii).

- The Engineering Export Promotion Council stated in December 1989 that they do not receive any details from RBI on outstanding foreign exchange realisations. They stated that in the absence of instruction from the Ministry of Commerce for effecting recovery of incentives in such cases, they had not taken any action. The Ministry stated in January 1992 that the cases pointed out in audit have been forwarded to the concerned Licensing Offices for taking necessary action. The Ministry also stated that grant of incentives had not been linked to realisation of foreign exchange. However, action to recover incentives paid would be taken if non-realisation of foreign exchange was the result of fruadulant action on the part of the exporter. The reply was silent on action to verify exports in all cases where IPR incentive was paid and the need for national interest being safeguarded by Export Promotion Council whose right to claim incentives flows only from its duty to safeguard foreign exchange realistion (Para 7.3.14(iii).

- For recovery of duty draw-back from exporters, where foreign exhcnage was not realised, there was no system of watching the realisation (Para (7.3.14(iv).

Ministry stated in January 1992 that during the year 1985-86 to 1988-89, the general shift was more towards advance licensing and Diamond Imprest Licensing Schemes. The country as a whole was getting more oriented towards earning import licences through exports rather than depend on release of free foreign exchange for imports. But as between non-import linked cash incentives and import incentives, it is not established that this shift (which hurts indigenous industry) increases net export earnings more. Also whether this shift is within a plan and time frame in which such increase in exports and decrease in imports (as is not linked to exports) will take place is not mentioned. The reply does not state how the export linked export incentives are linked to overall policy, if any, on bridging current and accumulated trade imbalances and planning for using export incentives to bridge the trade gap and wipe out accumulated trade deficit. In the absence of such a plan towards which the incentives work their justification is incomplete (Para 7.3.15).

- During the years 1987-88 to 1988-89 foreign exchange realisation came down which was avoidable. The PAC's recommendations in para 2.1 ante was aimed at such avoidence (Para 7.3.17(vii)).

CHAPTER VIII

Department of Supply

8.1 Expenditure and receipts on supplies and disposals

The revenue expenditure incurred in 1990-91 on the activities of Supplies and Disposals from the grant of the Department (Grant No.8) and of the Ministry of External Affairs (Grant No.23) was Rs.15.68 crores and Rs.3.21 crores respectively. Against the expenditure of Rs.18.89 crores under Head 2057 the receipts of the department under corresponding Head 0057 amounted to Rs.32.21 crores. The figures do not include cost of any supplies or value realised for any disposal, which all go to the account of indenting departments. Department charges fees and overheads from the indentors who have to use their services. Comments on the quality of the service rendered by Director General of Supplies and Disposal in getting the supplies to the indentors at reasonable cost and in time, have been included in the following paragraphs.

8.2 Failure to meet needs of indentors

Director General, Supplies and Disposals (DGSD), New Delhi placed two contracts on firm 'H' in June and September 1980 for supply by December 1983 of one hospital-cum-banking-cum-supply ship to Andaman and Nicobar Administration and two 22.5 tonnes bollard full seagoing/harbour tugs to New Mangalore Port Trust at a cost of Rs. 86.56 lakhs and Rs. 315.44 lakhs respectively. The firm was an untried small scale unit, provisionally registered in March 1978 for supply of small vessels and tugs upto 15 tonnes bollard pull, and monetary limit of Rs. 2.50 lakhs (enhanced to Rs. 5 lakhs in January 1980). Orders were placed after assessing technical acceptability of the firm's offer, and technical competence of supplier despite the order exceeding monetary limit of Rs. 2.50 lakhs (or Rs. 5 lakhs). The lowest offer of firm 'C' was not considered acceptable on the ground of its not meeting the tender specifications. In three reports submitted by the bankers, the financial standing of supplier was assessed differently at Rs. 2 crores, Rs. 6 crores and 8 crores respectively which, however, were not investigated before placement of order, far in excess of Rs. 2.50 lakhs.

The contracts entitled the supplier to receive stage payments on furnishing bank guarantees and comprehensive insurance policies, on completion of work up to prescribed stages. The firm submitted comprehensive insurance policies and ten bank guarantees to obtain stage payments amounting to Rs. 56.26 lakhs on the Hospital-cum-banking-cum supply ship and Rs. 205.04 lakhs on the tugs. In addition, three bank guarantees for Rs. 91.95 lakhs were received from the firm in 1983 against which payment of 36.39 lakhs was made to firm 'C' on behalf of firm 'H' towards cost of engines and gear sets for the tugs, supplied by the former to the latter. At the request of the firm and on the recommendation of the Inter-Ministrial progress review committee a sum of Rs. 4.20 lakhs (equivalent of £ 25,000) was also released (May 1983) to meet foreign obligations for the design and drawings of the ship though it was not within the scope of the contract.

Two bank guarantees for Rs. 0.75 lakh each were also received (June 1980 and September 1980) from the firm towards security deposits in respect of the two contracts.

When DGSD telegraphically requested Bank for extension of the validity of its guarantees as security deposit towards first and second stage payments, the bank guarantees against which the firm had obtained stage payments turned out to be not genuine. Alongside this development, payments of Rs. 17.31 lakhs and Rs. 36.39 lakhs were made by DGSD against fresh bank guarantees without verifying their genuineness.

The Bank informed DGSD (August 1983) that except for one bank guarantee for Rs. 0.75 lakh towards security deposit none of the other 14 bank guarantees was genuine. In October 1983 the Bank categorically stated that the guarantees, except for one for Rs. 0.75 lakh valid upto November 1981, had not been issued by it. The bank also disclaimed all liabilities to DGSD on the guarantees.

The comprehensive insurance policy taken out by the firm stood cancelled on dishonour of the firm's cheque for premium. Policy in respect of other contract was not extended beyond 6th December 1983.

The contract for the two tugs was cancelled (February 1984) by DGSD at the firm's risk and expense on grounds of delay in supply and that for the ship was cancelled (June 1984) on account of breach committed by the firm in furnishing fake and forged bank guarantees. Two demand notices for recovery of Rs. 56.91 lakhs towards ship and Rs. 245.36 lakhs towards tugs were served on the firm in May 1985. The firm filed a suit in Munsif Court, Calcutta against the cancellation of orders and taking possession of partly built ship/tugs, and the matter is under arbitration.

The firm claimed wharfage and upkeep of ship and tugs which on legal advice was rejected by DGSD as untenable.

One of the creditors, of the firm had filed an application in the Calcutta High Court for winding up of the firm "H", which was stayed by the Court. A First Information Report was filed by DGSD and the Central Bureau of Investigation filed a suit before Calcutta Metropolitan Magistrate chargesheeting the officials connected with fake guarantees. The DGSD filed a separate suit in Delhi High Court on the advice of Ministry of Law for taking possession of the partly built ship/tugs under possession of the firm. Final orders are awaited (September 1991).

The indent of Andaman and Nicobar Administration for supply of hospital-cum-banking supply ship is extant on DGSD even after cancellation of the contract; however, the New Mangalore Port Trust cancelled the indent on DGSD for tugs and placed direct order on a firm, in view of the urgency to procure tugs. The Port Trust has asked DGSD to refund the payment made to it.

In the result, by selecting the unregistered and untried firm 'H' in disregard of its own instructions of January 1978 which provide that only 50 per cent of the indented quantity can be ordered on such firm and by placing orders for value far in excess of monetary limits upto which the firm was registered and ignoring other acceptable tenders, DGSD failed in its prime function of meeting the needs of its indentors. In regard to financial standing of the firm the instructions stipulated that in the event of report received from the Bank being vague and ambiguous, the quotation of the firm should not be considered, ordinarily.

The matter was reported to the Ministry (September 1991); their reply has not been received (December 1991).

8.3 Unuused equipment

National Test House (NTH)

(i) An Industrial X-Ray equipment with accessories, costing Rs.6.40 lakhs was imported by Director General of Supplies and Disposals (DGSD) in July 1984 for use of National Test House Calcutta (NTH). On opening the crates it was found that all the stores were in wet and rusted condition and could not be installed. Control components had suffered damage and were beyond repair. The foreign manufacturer desired that the damaged components be returned to him for repair at his works. NTH approached the DGSD in December 1988 for necessary action. Reply from the DGSD is awaited (November 1991).

(ii) A Spectro-radio Meter with accessories costing Rs. 6.33 lakhs required for creating additional testing facilities in measurement of light sources was imported by DGSD in October 1984 for use of NTH. During demonstration, it was found that the equipment was not free from defects. On the advice of supplier firm for sending back the equipment to their works for repair, NTH enquired (June 1987) about the procedural formalities from DGSD which advised (September 1988) NTH to send back the equipment on "freight paid' basis. NTH sought further advice from the Department of Supply in December 1990 as to whether the equipment could be sent to the principals without taking a bank guarantee. No advice has been received (November 1991) and the equipment was lying idle.

(iii) A Programmable Climatic Chamber with accessories, costing Rs.4.21 lakhs was imported by the DGSD in December 1983 for use of NTH. The Indian agent of foreign supplier did not install and commission the equipment though required to do so. NTH took up the matter with DGSD which had procured the equipment. The equipment has not so far been commissioned (June 1991).

(iv) One Shock Testing Machine costing Rs.5.14 lakhs was imported by DGSD in July 1987 for use of NTH. The equipment could not be installed due to non-availability of site. The Indian agent of foreign supplier informed NTH in August 1988 that the sophisticated equipment had been stored for more than one year in a very dirty place and NTH were advised to shift the equipment to cleaner environment. On opening the crates, it was found that the special lubricating oil required for the compressor was not supplied with the equipment and the key-switch of the control panel was missing. The wanting items were received in September 1989. During the pre-commission test of the equipment in January 1990, mechanical defects were noticed. The Indian agent attended the machine in the first quarter of 1991 and suggested sending back some of the parts for repairs by his principal. The parts were, however, not sent to the foreign firm for repair. The equipment has not been commissioned so far (June 1991).

(v) DGSD imported (a) partial discharge test set with accessories and (b) AC Test system with accessories at a total cost of Rs.12.94 lakhs between October 1983 and December 1984 for testing cables and insulators in NTH. The Test systems have not been installed so far (June 1991) as the partial discharge testing laboratory was not constructed. The construction work of the laboratory could not be started due to procedural delay and only the piling work was taken up by Central Public Works Department in March 1991.

(vi) One Oxygen Air Apparatus procured by NTH at a cost of Rs.0.68 lakh through DGSD in May 1984 could not be installed till June 1991 as the firm supplied non-matching parts which have not been replaced so far. The DGSD served notice to the supplier in April 1990 but the instrument is lying idle.

(vii) One Ozone Test Chamber with spares was imported by NTH through DGSD in December 1978 at a cost of Rs. 0.78 lakh. During trial run the built in Vacuum Pump went out of order and the same could not be rectified as the supplier firm had been liquidated. NTH contacted an Indian firm for rectification of the equipment which inspected the equipment and suggested the purchase of a vacuum pump. The matter is still under consideration and the machine is lying idle (June 1991).

The matter was referred to the Ministry in August 1991; reply has not been received (November 1991).

8.4 Avoidable payment of custom duty

(i) Four USIP Ultrasonic Flaw Detector equipment were cleared (August 1987) on payment of custom duty of Rs.11.06 lakhs. Claim for refund of custom duty preferred in October 1987 was rejected in

December 1987 as extension of time for producing the certificates later had not been obtained. Appeal to the Collector of Customs was rejected in May 1988.

(ii) Another Ultrasonic Flaw Detector was cleared in November 1982 on payment of custom duty of Rs.1.94 lakhs. Claim (June 1983) for refund of custom duty was not allowed by customs.

(iii) Sound and vibration equipment imported was cleared in February 1987 on payment of custom duty of Rs.1.41 lakhs. Claim (September 1987) for refund was rejected (January 1988) because extension of time for presentation of certificates had not been sought from customs.

In the result, NTH Calcutta as indentor of Department of Supply incurred avoidable expenditure of Rs.14.41 lakhs due to non-compliance of the conditions stipulated in the Customs Act and notification issued thereunder.

NTH stated in December 1990 that it was not supposed to know the Customs Act and it was the duty of Assistant Director (Shipping) under Department of Supply (as commission agent of indentor) to follow all rules and attend to all formalities for customs clearance and obtaining exemption from customs duty.

The Department stated, in October 1991, that it was ascertaining whether any official in NTH was responsible for any act of omissions or commissions.

8.5 Failures to meet indentor's need in time

On an indent received from Director General, Central Reserve Police Force, the Directorate of Supplies and Disposals, Kanpur under the Director General Supply and Disposal (DGSD) placed an order (April 1983) for the supply of 15,910 steel trunks on firm 'A', for delivery by September 1983 (later extended to 15th June 1984). Order for an additional quantity of 650 trunks was placed in May 1983 for supply before November 1983. The firm supplied only

3998 trunks by September 1983 and 1302 more trunks by 5th February 1984. After issue of notice balance order was cancelled (June 1984) at the risk and cost of the firm.

For the balance quantity of 11260 trunks, a risk purchase order was placed on firm 'B' in August 1984 for supply by the 15th February 1985 (later extended to 30th June 1985). The firm supplied only 2500 trunks and balance order was cancelled (August 1985) at the risk and cost of firm 'B'.

Two risk purchase orders for the balance quantity were placed on firms 'C' and 'D' in September 1985 for 3660 and 5100 trunks respectively. Delivery date was extended upto 30th June 1987. After supplying 150 trunks, firm 'C' enquired in August 1986 whether the stores were to be fabricated out of cold rolled carbon (CRC) sheets as advised by the inspecting officer, or from black mild steel (MS) sheet as per the agreement.

Firm 'C' was informed in July 1987 that CRC sheets were to be used and delivery date was extended to 15th April 1988. As the firm did not acknowledge the important amendment to the agreement the delivery date was again extended to 15th September 1988. The order was cancelled in December 1988 at the risk and cost of firm 'C'.

Firm 'D' supplied only 1975 trunks even by the extended delivery date of 15th May 1988. The balance order was, cancelled in August 1988.

Order for 3510 trunks was placed on firm 'E' in May 1989 and supplies were received by January 1990. Order was placed on firm 'F' in January 1990 for 3125 trunks.

All the supplies which were required by November 1983 were made by DGSD to indentor only by January 1990 and at an extra expenditure of Rs.11.33 lakhs (as indicated below) inspite of risk purchase orders having been placed by DGSD at various stages.

Quantity of risk purchase order	Quantity supplied	Original rate (per piece) of firm 'A'	Risk purchase rate per piece	Extra expenditure because of risk purchase
Nos.	Nos.	Rs.	Rs.	Rs. in lakhs
11260	2500	62.49 less discount Re.1	99.20 less 1/2% discount	0.93
3660	150		134.00	0.11
5100	1975		134.00	1.43
3510	3510		187.00	4.41
3125	3125		189.90	4.01
	11250		Total	10.89
		Add 4% sales tax:		0.44
		Total Extra expenditure		11.33

General damages were recoverable from firms 'A', 'B', 'C' and 'D' but were not realised by DGSD. Only a provisional demand notice was issued to firm 'B' for the recovery of Rs.3.22 lakhs in March 1986. Further, DGSD allowed bank guarantee for Rs.0.48 lakh given by firm 'A' to lapse.

The matter was reported to the Ministry in August 1991; their reply has not been received (December 1991).

8.6 Inspection of defective Creamwove paper

The Director General, Supplies and Disposals (DGSD) placed an order on a firm in September 1985 against a Rate Contract for supply of 950 tonnes of creamwove paper for delivery to Government of India Press, Aligarh by December 1985 at the rate of 11,248 per tonne (excluding sales tax). Though the delivery date was extended up to May 1986, the firm could supply only 329.40 tonnes by that date. The supply of balance quantity was cancelled.

The Inspecting Officer of DGSD accepted (November 1985) the stores on the basis of two internal test reports. However, on receipt of stores, the consignee Press drew 14 samples from different lots and sent them between January and July 1986 for test to the Government of India, Stationery Office (GISO), Calcutta which is one of the five accredited testing laboratories. The GISO issued 14 test reports to the consignee with copies to DGSD between March 1986 and August 1986. The tests revealed that 89.053 tonnes of paper (valuing Rs.10.42 lakhs) was unacceptable and 184.479 tonnes deviated from the specifications. Thereupon the DGSD obtained from the firm a price reduction of Rs.0.12 lakh, being 0.30 per cent of the value of stores supplied by the firm.

The consignee accepted and used the defective stores because the paper was needed to avoid disturbance in his production.

The Inspecting Authority of DGSD while commenting on the test results of GISO stated that they had nothing to do with the check by the consignee after receipt. The GISO have different standards for reporting deviations from specifications. But the Inspecting Authority of DGSD admitted that had they come to know of the deficiencies revealed in the test results, they could have arranged for joint inspection binding on all the parties. This could not be done because the defective stores had ben utilised.

The comment of the Inspecting authority of DGSD is not tenable as GISO was duly authorised to carry out tests, after the inspection by Inspectors of DGSD, as per the terms of contract entered into by DGSD with the firm.

The DGSD obtained a price reduction on the quantity of 89.053 tonnes held to be unacceptable, instead of withholding payment thereon.

The Department stated (November 1991) that although GISO was one of the test laboratories duly authorised to carry out test after pre-despatch inspection (by DGSD), their test reports in this case cannot be relied on, as they had gravely erred in testing; price reduction of 0.3% was more a token with a view to settle the case and not because the supplies were sub-standard.

The reply received in November 1991 would seem to be more a rationalisation of the action of Inspecting Authority of DGSD, than a technical rebuttal of the technical findings of one of the five accredited testing laboratories in the country and DGSD's reply should have been submitted to that laboratory or the indentor soon after August 1986.

8.7 Loss by acceptance of sub-standard stores by Inspector

The Director of Supplies and Disposals, Madras (DSD) procured 2.23 lakh metres of unmedicated surgical loosewove gauze for the Armed Forces Medical Stores Depot, Bombay (consignee).

2.17 lakh metres was received by the consignee in May 1987, but 2.15 lakh metres were rejected as sub-standard though passed by the Inspector of DSD. The offer (September 1987) of supplier to reduce price for rejected quantity was not accepted by the consignee. The supplier did not replace the stores and DSD cancelled the balance order on firm fixing the date of breach as 31st December 1987. DSD repurchased 2.21 lakh metres from another supplier in December 1988 after six months from the breach of contract by previous suplier, whereby it did not qualify as risk purchase order. Extra expenditure of Rs.0.46 lakh incurred on the repurchase could not be recovered from first supplier. Also out of Rs.1.52 lakhs paid (June 1987) for the rejected stores only Rs.0.19 lakh was recovered by DSD. The Department was, thus, put to a loss of Rs.1.79 lakhs.

The Ministry confirmed in May 1991 that out of Rs.1.52 lakhs Rs.1.33 lakhs was still to be recovered; but extra expenditure on repurchase cannot be recovered not being a risk purchase. Efforts are being made to claim general damages from the defaulting supplier.

8.8 Avoidable extra expenditure;

8.8.1 Galvanised steel wire: Directorate General of Supplies and Disposals (DGSD) New Delhi invited tenders, in September 1988 for 4,000 tonnes of hot dip galvanised mild steel wire required by Railways. The lowest of the twenty seven tenders was for supply at Rs.11,169 per tonne (inclusive of taxes). DGSD made a counter offer of Rs.10,250 per tonne plus sales tax which was the rate quoted by an un-registered firm and which was not a valid tender. The counter offer was not accepted and a fresh tender enquiry was issued by DGSD in June 1989 for 3400 tonnes and with revised price variation parameters in the notice inviting tenders. Twenty two tenders were received and order was placed at Rs.12,850 per tonne plus sales tax. The supply to Railways was completed by January 1991.

The decision to make a counter offer and reject the first set of tenders resulted in extra expenditure of Rs.42.34 lakhs to the Railways and delay in delivery by 15 months. The extra payment due to price variation would under the old price variation parameters have been only Rs.3.63 lakhs as against Rs.42.34 lakhs paid extra. The extra expenditure was the result of management failure.

The matter was reported to the Ministry in September 1991; reply has not been received (December 1991).

8.8.2 Ambiguous procedure: For the Budget Press of the Department of Economic Affairs (Department), the Director General of Supplies and Disposals (DGSD) imported a Knife Trimmer in April 1986. One of the cases containing the equipment was damaged while unloading and, therefore, the Budget Press did not take delivery. The damage was attributed to rough handling while unloading in the docks which was the responsibility of the shipping agent. A Technical

Committee found the machine to be unusable. Refund of Rs.13.94 lakhs out of customs duty of Rs.14.42 lakhs was obtained in March 1990. But the equipment costing Rs.18.15 lakhs is still lying in the godown of the DGSD at Bombay (August 1991).

Department of Economic Affairs stated (October 1991) that the machine could be disposed of only after refund of the balance amount of customs duty is obtained. The Department also directed (October 1987) the General Manager, New Mint, NOIDA to find out if there had been any negligence on the part of any functionary. The findings were not on record.

The Department's claim for damages was rejected (February and May 1987) by the Shipping Company on the ground that the survey was conducted 104 days after discharge of the equipment from vessel against the prescribed time limit of three days. The Department stated that (February 1992) combined survey within 3 days of landing of cargo could not be conducted as the issue regarding model number had to be sorted out before arranging clearance.

According to the terms and conditions of purchase order it was the responsibility of the consignee (Department) to lodge the claim for loss/damage or shortage. Though the DGSD was also required to take action in case of any damage, shortage or loss of consignment DGSD had also not taken such action in time. The liability of Steamer Agent was restricted to £ 100 per package (£ 200 in case the Steamer Agent was signatory to the Gold Clause Agreement). Department of Economic Affairs stated (October 1991) that steps were taken by the clearing agents of DGSD to survey the equipment but there was some delay in completing the process. Nevertheless, DGSD prepared a draft plaint in April 1987, in consultation with the Ministry of Law, for filing a suit against the Shipping Company. But, the matter was not pursued further for want of clear decision on the filing of suit and payment of Court Fee amounting to Rs.0.15 lakh and the party which should file the claim. On the advice of the Ministry of Law (June 1988) DGSD was asked to file the suit. Further developments were not on record. However, DGSD stated that it was not worthwhile to spend Rs.0.15 lakh on Court Fee stamps against a limited liability of the Steamer Agent.

The ambiguity in the allocation of responsibility for filing claims in the procedure for procurement through DGSD and the failure of the Department and DGSD to take action within the tight time schedule under the procedure led to loss of Rs.18.15 lakhs.

8.8.3 Purchase of pickets: The Directorate General, Supplies and Disposals (DGSD) placed an order on firm 'A' in February 1984 for the purchase of 25,000 (later raised to 31,250) pickets at the rate of Rs.32 per piece, for supply commencing after 15 days from the date of approval of advance sample and to be made at the rate of 30,000 pieces per month. The advance sample submitted on 13th February 1984 was cleared by DGSD's inspector on 10th April 1984 subject to certain rectifications. But the test results were communicated to the firm by DGSD only on 28th June 1984 and delivery was rescheduled to commence from 15th July 1984 at the rate of 20,000 pieces per month to be completed by 15th September 1984 or earlier. As prices of steel had increased in the meanwhile the firm demanded increase in price which was turned down by DGSD in October 1984. But the delivery period was extended up to 30th December 1984 and again up to 15th March 1985 at request of firm. Two lots of stores tendered for inspection in December 1984/February 1985 were rejected in January and February 1985 and order was cancelled in August 1985 at the risk and cost of the firm for defaulting on delivery by 15th March 1985.

DGSD placed a risk purchase order on firm 'B' in March 1986 for quantity of 31,250 pickets at the rate of Rs.57.25 per piece. Firm 'B' also did not deliver the entire quantity within the delivery period and order was cancelled in December 1987 at its risk and cost. Another risk purchase order was on firm 'C' in April 1988 at the rate of Rs. 48.50 per piece and supplies were completed by it in May 1989.

The DGSD issued demand notice, in April 1988, to the defaulting firm 'A'for the recovery of Rs. 5.72 lakhs as the extra expenditure incurred on the risk purchase. No response was received from the firm DGSD proposed arbitration (November 1988) but the Ministry of Law advised that it would be better if DGSD ascertained the market rate on or near about the date of breach from trade. DGSD addressed 75 firms in February 1989 to know the rate on or about 15th March 1985 but only two responded. The Ministry of Law advised that unless the claim was properly identified and fully established, it was futile to go in for arbitration. However, arbitrator was appointed in June 1990.

The utility of the system of risk purchase would seem to be questionable utility in practice. Instead efforts at verifying the capacity of the supplier to deliver at the quoted price within the contracted time would seem to ensure deliveries and obtained better value for money. Purchase agencies would need to be held accountable by deliveries effected and not litigation and arbitration taken up alongside prolonged delays in deliveries.

8.8.4 *Iron chain*: The Directorate General of Supplies and Disposals (DGSD) placed an order on a firm in November 1983 for supply of 1,42,197 Kgs of chain iron to Railways at a cost of Rs.6.72 per Kg plus sales tax. Supplies were to be completed by June 1984 later revised to February 1985. The firm supplied only 31,539 kgs of chain by February 1985 and delivery period was extended to 31st October 1987. The firm failed to supply the balance quantity and the order was cancelled at the risk and cost of the firm.

A risk purchase tender inquiry was made in March 1988 but no orders were placed thereagainst. The order on the defaulting firm was revised for delivery upto 31st December 1988 and the firm supplied a further quantity of 5,688 Kgs of chain iron in September 1988. The firm failed to supply the balance quantity of 1,04,970 Kgs and the order was again cancelled at the risk and cost of the firm.

A second risk purchase tender inquiry was floated in April 1989 but no orders were placed thereagainst.

A third tender inquiry was issued in August 1989. The offer of the defaulting firm at Rs.16 per Kg plus excise duty and sales tax was found to be the best, but, the indentor (Railways) informed DGSD in September 1989 that it had already purchased one lakh Kgs of chain directly from the defaulting firm at the rate of Rs.10.25 per Kg plus taxes. In comparison to the original tender at Rs.6.72 per Kg the direct purchase by the indentor had resulted in an extra expenditure (including sales tax) to him of Rs.3.67 lakhs. But, in comparison to the final price found to be the best by DGSD at Rs.16 per Kg the direct procurement by the indentor was to his advantage.

The Ministry of Law advised in November 1990 that general damages of Rs.2.61 lakhs could be recovered from the defaulting firm, but DGSD had not recovered general damages from the firm, till August 1991.

In the result, after about six years the indentor had to go in for direct purchase (bypassing DGSD) and incur extra expenditure of Rs.3.67 lakhs besides foregoing general damages of Rs.2.61 lakhs not claimed by DGSD. However, by direct purchase the indentor saved incurring expenditure at higher rates at which purchases were recommended by DGSD all from the same firm.

The Department stated (September 1991) that DGSD was not responsible for the extra expenditure incurred by the indentor and that the dispute for the recovery of general damages was under reference to an Arbitrator. The reply is not tenable as one of the rationale for procurement by indentors through agency of DGSD is to gain price advantage in procurement.

8.8.5 Defence purchase: The Directorate General of Supplies and Disposal, Kanpur (DGSD) placed an order in July 1982 for supply of 2200 atta sieves at a cost of Rs.1.80 lakhs (excluding sales tax) to an Ordnance Depot.

The supplies were to be completed by May 1983 but were not completed even by the extended date of 31st October 1983. Consequently, the order on the supplier firm was cancelled (January 1984) at the risk and cost of the supplier. After inviting tender for risk purchase, the new tender of the defaulting firm was accepted in April 1984, at the same rate for delivery by 15th July 1984 which date was later extended to 28th February 1985. The firm failed to make supplies even by the extended delivery date. The risk purchase contract was, therefore, cancelled (July 1985) again at the risk and cost of the defaulting firm.

DGSD issued normal tender enquiries (not risk purchase enquiry) in August 1985 in response to which three offers were received at rates ranging between Rs.198 to 221 per sieve. The quoted rates were higher than the last purchase price in June 1985 by 40 per cent. Order was placed in February and March 1986 on three firms 'R', 'F' and 'S' at a cost of Rs.3.82 lakhs (excluding sales tax) which amounted to extra cost of Rs.2.10 lakhs over contract with defaulting firm. Supplies were completed by the firms between August 1986 and September 1988. But extra cost was not recovered from defaulting firm as the repurchase was not a risk purchase.

In the result the supply of stores to Defence was delayed by more than five years and Defence had to bear extra cost of Rs.2.10 lakhs. Further, even though supplies were completed in September 1988, DGSD has not claimed general damages from defaulting firm nor encashed the bank guarantee for Rs.0.18 lakh obtained from it.

The Department stated (October 1991) that in order to establish the market rate prevailing (for claiming general damages) around the date of breach they had already made two efforts by issuing trade enquiries to which they had received no response. In the absence of market rate general damages could not be quantified so far. The Department further stated that the failure to encash bank guarantee was being investigated with a view to fix responsibility for the lapse. The replies are not tenable as general damages are claimed on reasonable basis by the party assessing market price which is accepted by the other party or arbitrated upon. The failure to take action to claim damages and encash bank guarantee is a management failure.

8.8.6 Unused equipment: For the Radiology Department of Dr. Ram Manohar Lohia Hospital (Hospital) the Directorate General of supplies and Disposals (DGSD) imported in May 1989 an Automatic X-ray Film Processing Unit, for at a cost of Rs.2.04 lakhs. In February 1990 the equipment was reported to be defective and DGSD was again informed in April 1990 that equipment was defective and the firm be asked to refund the cost of the equipment. The Hospital rejected the equipment in August 1990 and thereupon, the DGSD requested the Chief Controller of Accounts, Department of Supply, in September 1990, to withhold the cost of the equipment from the bills of the firm pending for payment. An amount of Rs. 1.68 lakhs was withheld against the expenditure of Rs. 2.04 lakhs incurred on the equipment. In August 1991, the Controller of Accounts was again requested to withhold the balance amount also.

Due to the failure of the procurement agency to deliver an equipment as will function and give value for money avoidable expenditure of Rs. 2.04 lakhs was incurred.

CHAPTER IX

Department of Coal

9. Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Department (Grant No.19) amounted to Rs.942.49 crores and Rs.148.97 crores respectively.

The progressive capital outlay, as at 31st March 1991, on Coal is given below under respective capital major heads of account. The outlay should generate revenues and returns to Government. The revenue expenditure and revenue receipts in 1990-91 under the corresponding revenue heads of account are given alongside. The component of outlay invested in identifiable organisations or undertakings (whether declared commercial or not), Public Sector Undertakings and Cooperatives are given below within brackets. N.A. indicates information has not been made available in the accounts, though required to be given in some cases. The Chief Accounting Authority of the Department would need to take follow up action for getting wanting information in accounts and improving returns from capital outlays and investments. He may also need to drop from the progressive capital outlay the expenditures which are not correlatable to any assets on the register of assets, physical or financial and cannot also be truly entered in the register of asset to rectify omissions. Action has also to be taken to declare activities identifiable as "Departmental Undertakings" and those which should make profits as "Departmental Commercial Undertakings". All Public Sector and other Undertakings, cooperatives and Departmental Commercial and non-Commercial Undertakings need to be listed in Statement No.11 of the Finance Accounts indicating the capital invested in them and the return realised from them.

(Rupees in crores)

Sl. No.	Major Head	Progressive Capital Outlay as at the end of 1990-91	1989-91	1988-89	Revenue Expenditure 1990-91	Revenue Receipts 1990-91
1.	4803-Capital Outlay on Coal and Lignite	6926.17	6384.68	5794.93	123.48 (Head-2803)	NA
	(4803-190-Investment in Public Sector and other Undertakings)	(2475.71)	(1943.71)	(1361.71)	--	(NA)
	(Coal India Ltd.)	(5716.96)	(5227.47)	(4767.73)	--	(Nil) (Loss upto 31.3.91 was Rs.2498.65 crores)
	(Neyveli Lignite Corporation)	(1435.82)	(1315.82)	(1024.82)	--	Nil
	(Singareni Collieries Ltd.)	(106.05)	(95.05)	(84.05)	--	(Nil) (Loss upto 31.3.91 was Rs.408.01)

The loans and advances given and outstanding as at 31st March 1991, for Coal and Lignite are also given below, as indicated in statement no.15 of the Finance Accounts. The components of loan given to identifiable organisation or undertaking are given below within brackets. NA indicates that information has not been made available in the accounts though required to be given. The interest recovered will need to be given in the statement against, loans under each minor head separately, in future, in addition to the interest on loans under the major head. Against some of the loans very little or no recovery has been made in the last three years and interest recovered is also relatively meagre. In statement no.3 of Finance Accounts, Ministry/Departmentwise and loaneewise, some of the outstanding loans and interest are indicated; but information is not complete. Also the amounts of loans outstanding and amounts of instalments overdue for recovery, both need to be given in the statement, in future. The Chief Accounting Authority in the department will need to take follow up action for getting wanting information and effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loanee wise details given in statement no.3 all the Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

(Rupees in crores)

Sl. No.	Head of Account	Amount of loan outstanding as on 31.3.91	Loan Recoveries during			Interest recovered during		
			1990-91	1989-90	1988-89	1990-91	1989-90	1988-89
1.	6803-Loans for Coal and Lignite	4879.92	68.76	182.62	241.80	Nil	Nil	448.69
	(6803-190-Loans to Public Sector and other Undertakings)	(1634.01)	(68.76)	(182.62)	(241.80)	(Nil)	(Nil)	(NA)

CHAPTER X

Department of Power

10.1 Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Department (Grant No.20) amounted to Rs.2364.67 crores and Rs.403.89 crores respectively. After adjusting the recoveries the amounts brought to account in Finance Accounts were Rs.2364.62 crores and Rs.403.87 crores respectively.

The progressive capital outlay, as at 31st March 1991, on Power Projects (other than Nuclear power Projects) is given below under respective capital major heads of account. The outlay should generate revenues and returns to Government. The revenue expenditure and revenue receipts in 1990-91 under the corresponding revenue heads of account are given alongside. The component of outlay invested in identifiable organisations or undertakings (whether declared commercial or not), Public Sector Undertakings and Cooperatives are given below within brackets. N.A. indicates information has not been made available in the accounts, though required to be given in some cases. The Chief Accounting Authority of the Deopartment would need to take follow up action for getting wanting information in accounts and improving returns from capital outlays and investments. He may also need to drop from the progressive capital outlay the expenditures which are not correlatable to any assets on the register of assets, physical or financial and cannot also be truly entered in the register of asset to rectify omissions. Action has also to be taken to declare activities identifiable as "Departmental Undertakings" and those which should make profits as "Departmental Commercial Undertakings". All Public Sector and other Undertakings, cooperatives and Departmental Commercial and non-Commercial Undertakings need to be listed in Statement No.11 of the Finance Accounts indicating the capital invested in them and the return realised from them.

(Rupees incrores)

. No.	Major Head	Progressive Capital Outlay as at the end of			Revenue Expenditure 1990-91	Revenue Receipts 1990-91
		1990-91	1989-90	1988-89		
1.	2.	3.	4.	5.	6.	7.
1.	4801-Capital Outlay on Power Projects (other than Nuclear Power)	10569.98	10427.24	8401.33	460.82 (Head 2801- less Nuclear)	61.75 (Head 0801- less Nuclear)
	(4801-01-190 Investment in Public Sector and other Undertakings) Hydro	(1620.67)	(905.02)	(364.57)	--	(NA)
	(4801-01-099 Salal Hydro Electric Project)	(570.04)	(524.23)	(515.06)	--	(NA)
	(4801-01-095-Lower Lagyap Hydro Electric Project)	(0.68)	(0.68)	(0.68)	--	(NA)
	(4801-01-097-Biara Siul Hydro Electric Project)	.(Nil)	.(Nil)	.(Nil)	--	(NA)
	(4801-01-092-Power House at Kaplong)	(0.03)	(0.03)	(0.03)	--	--
	(4801-01-Sardar Sarovar Project)	(66.72)	(21.00)	(NA)	--	--
	(4801-02-190 Investments in Public Sector and Other Projects-Thermal)	(2566.09)	(1672.46)	(841.02)	--	(NA)
	(4801-02-098 Badarpur Thermal project)	(268.62)	(263.58)	(256.51)	(339.73) (Head 2801-102)	(3.16) (Head 0801-02-101)
	(4802-02-092 Electricity Supply Undertaking in Kutch)	(0.07)	(0.07)	(0.07)	--	--
	(4801-02-091 & 4801-05-097 Electricity Plant and Transmissions Distribution at Port Blair)	(3.48)	(3.48)	(3.48)	(1.21) (Head 2801-05--800)	NA

1.	2.	3.	4.	5.	6.	7.
	(4801-02-094 & 4801-04-097 Power House in Andaman and Nicobar Islands)	(17.39)	(12.16)	(0.44)	(2.55) (Head 2801-04-800)	(0.31) (Head 0801-04-102)
	(4801-02-095 Power House at Chatham)	(0.18)	(0.18)	(0.18)		(2.28) (Head 0801-02-102)
	(4801-02-090 and 4801-04-015 Electrification & Supply in Lakshadweep)	(0.38)	(0.38)	(0.38)	(3.93) (Head 2801-04-099)	(0.57) (Head 0801-04-102)
	(4801-04-098 Power House at Phoenix Roy)	(3.06)	(2.84)	(2.58)	(3.30) (Head 2801-04-800)	NA
	(4801-04-190 Investment in Public Sector and Other Undertakings Diesel Gas Power)	(116.58)	(25.50)	(10.50)	--	NA
	(4801-05-190 Investment in Public Sector and Other Undertakings for Transmission distribution)	(140.70)	(96.20)	(60.60)	--	NA
	(4801-05-National Electricity System Operation Organisation)	(0.30)	(0.28)	(0.10)	--	NA
	(4801-05-096 Permanent Electrification Chandigarh)	(61.39)	(54.39)	(48.49)	31.35 (Head 2801-05-101)	27.05 (Head 0801-05-102)
	(4801-05-099 Load Despatch Station)	(38.26)	(37.77)	(37.20)	--	NA
	(4801-06-Rural Electrification)	(20.89)	(15.82)	(11.03)	--	NA
	(4801-80-190 Investment in Public Sector and Other Undertakings for General Purpose)	(828.80)	(608.75)	(304.80)	--	NA
	(Naptha Jhakri)	(151.21)	(111.21)	(50.00)	--	NA
	(NPCC)	(25.79)	(25.79)	(21.84)	--	Nil
	(NHPC)	(1711.93)	(1204.28)	(800.04)	--	Nil
	(NTPC)	(6747.89)	(5466.83)	(4807.39)	--	Nil

1.	2.	3.	4.	5.	6.	7.
	(NPTC)	(5.10)	(0.60)	NA	--	Nil
	(North East Electric Power Corporation)	(37.58)	NA	NA	--	NA
	(Power Finance Corporation)	(850.45)	(630.40)	(330.40)	--	NA
	(Rural Electrification Corporation)	(322.60)	(282.60)	(247.60)	--	(Dividend 2.83 for 1989-90)
	(Tehri Hydro Development Corporation)	(293.00)	(125.00)	(50.00)	--	Nil

The loans and advances given and outstanding as at 31st March 1991, for Power Projects are also given below, as indicated in statement No.15 of the Finance Accounts. The components of loan given to identifiable organisation or undertaking are given below within brackets. NA indicates that information has not been made available in the accounts though required to be given. The interest recovered will need to be given in the statement against loans under each minor head separately, in future, in addition to the interest on loans under the major head. Against some of the loans very little or no recovery has been made in the last three years and interest recovered is also relatively meagre. In statement No.3 of Finance Accounts, Ministry/Departmentwise and loaneewise, some of the outstanding loans and interest are indicated; but information is not complete. Also the amounts of loans outstanding and amounts of instalments overdue for recovery, both need to be given in the statement, in future. The Chief Accounting Authority in the department will need to take follow up action for getting wanting information and effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loaneewise details given in statement No.3, all the

Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

(Rupees in crores)

Sl. No.	Head of Account	Amount of loan outstanding as on 31.3.91	Recoveries during			Interest recovered		
			1990-91	1989-90	1988-89	1990-91	1989-90	1988-89
	6801-Loans for Power Projects (other than Nuclear Power Projects)	6854.09	140.33	114.26	104.45	77.65	415.10	337.19
						(less interest on loan to Nuclear power plants NA)		
	(6801-190-Loans to Public Sector and other Undertakings)	(45.63)	(11.15)	(Nil)	(Nil)	(NA)	(NA)	(NA)
	(6801-800-Other loans to Electricity Boards)	(156.12)	(1.82)	(1.81)	(2.24)	(NA)	(NA)	(NA)

10.2 Adjustments to be made in Finance Accounts

In the balances at the end of 1990-91 which are reflected in the Finance Accounts the adjustment or review of the balances under the following heads of account need to be made by the Chief Accounting Authority in the Ministry/Department as indicated in the remarks column.

(Rs. in thousands)

Heads of Account	Balance as at the end of			Remarks
	1990-91	1989-90	1988-89	
8121-General and other Reserve Funds -111 Contingency Reserve Fund (interest) bearing)	12,96,68 (Cr.)	12,96,68 (Cr.)	12,96,68 (Cr.)	The reasons for having non-moving balances in this fund and not crediting interest on balances need looking into.

10.3 Avoidable extra expenditure

10.3.1 Unnecessary payment of grant-in-aid: The Department sanctioned a grant of Rs.23 crores to the Rural Electrification Corporation Limited (REC) in March 1989 under the Jaldhara Scheme for providing fifty thousand pump sets to marginal farmers on ownership basis in 615 drought prone blocks in 13 States. Assistance from Government was to be restricted to 50 per cent of the cost of pump set subject to a ceiling of Rs.4500 per unit, with the balance amount coming as loans from commercial banks to the individual beneficiaries. Identification of beneficiaries in each block was to be done by the implementing agencies in consultation with the District Development Authority or District Rural Development Agency in the States.

REC had intimated the Department in February 1989 that in view of delayed clearance of the scheme and the lead period involved in procurement of pumps, tying up with the Banks and identification of beneficiaries, it would not be possible to implement the programme during the year 1988-89. Despite such intimation, grant-in-aid of Rs.23 crores was released in the first week of March 1989 to REC by Department of Power.

REC intimated the Planning Commission, the Ministry of Finance and the Department of Power in June 1990 that only 4222 pump sets had been installed in the four States of Andhra Pradesh, Orissa, Madhya Pradesh and Rajasthan up to March 1990. They also informed that the State Electricity Boards were not willing to take up the implementation of the programme because they were not directly connected with activities like identification of beneficiaries, procurement of pumps and tying up arrangements with the banks for giving loans to beneficiaries. The Department discontinued the scheme from 1st April 1990 with the concurrence of Ministry of Finance and Planning Commission and requested the REC in November

1990 to refund the unspent amount out of the grant of Rs.23 crores.

Department stated (January 1992) that though the scheme was discontinued from April 1990, REC was allowed to fulfil its committed liabilities during 1990-91; cumulatively, 9320 eligible farmers were provided assistance; the amount disbursed by REC amounted to Rs. 4.05 crores; REC had refunded Rs.18.95 crores during October and December 1991. The fact, however, remains that the Department failed to choose a proper agency for the implementation of the development scheme; Rs. 18.95 crores remained blocked with REC for more than two and half years.

10.3.2 Provident fund subscriptions: The provisions of the Employees Provident Fund Act, 1952, were made applicable from 31st October 1980 to establishments engaged in building and construction, in which twenty or more persons were employed. The Beas Construction Board to which also the Act became applicable deposited Rs.11.70 lakhs between April and July 1983 as employees' share for the period from September 1981 to November 1982. But it did not make deduction of the employees' share of the Provident fund (PF) subscriptions from the wages of employees. However, recovery of Rs.6.67 lakhs was effected from terminal benefits granted to the retrenched, retired and family of expired employees, leaving a balance of Rs.5.03 lakhs still to be recovered from other employees (October 1990).

On the non-recovery being pointed out (May 1989) in audit, the Ministry stated (October 1989) that because of the refusal of the employees to pay their share, recovery of the balance amount of Rs.5.03 lakhs was not possible. It was waived by the Board in November 1990.

A perusal of the records, however, revealed that the non-deduction of employees share of provident fund subscriptions from their monthly wages was due mainly to delay by the board in applying the provisions of the Act till November 1982. The employees had only protested subsequently when called upon to contribute their share for the past period. The Regional Provident Fund Commissioner, Chandigarh, to whom the matter was referred by the Board had stated (November 1983) that the Board could not be exempted from payment of employees' share of contributions as the non-deduction thereof was "not due to accidental mistake or a clerical error". There was no justification for the Board to waive the recovery as the employees are legally liable to contribute to the provident fund, and the Board can legally recover the amounts due from them.

CHAPTER XI

Ministry of External Affairs

11.1 Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Ministry (Grant No.23) amounted to Rs.74.67 crores and Rs.607.10 crores respectively.

The progressive capital outlay which is mainly on land and buildings, as at 31st March 1991, on External Affairs is not given separately in Accounts. It needs to be assessed how far the capital outlay and revenue expenditure results in correlatable reduction in expenditure which whould have been incurred in the absence of the capital outlay e.g. office and residential accomodation owned versus leaser abroad. The Chief Accounting Authority may also need to drop from the progressive capital outlay the expenditures which are not correlatable to any assets in the register of assets, physical or financial and cannot also be truly entered in the register of assets so as to rectify omissions. The receipts relating to expenditure incurred on the services rendered.

On the loans and advances given, the Chief Accounting Authority in the Ministry will need to take follow up action to effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loanee wise details given in statement No.3 all the Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

11.2 Adjustments to be made in Finance Accounts

In the balances at the end of 1990-91 which are reflected in the Finance Accounts the adjustment or review of the balances under the following heads of account need to be made by the Chief Accounting Authority in the Ministry/Department as indicated in the remarks column.

(Rupees in thousands)

Heads of Account	Balance as at the end of				Remarks
	1990-91	1989-90	1988-89	1987-88	
6002-External Debt					
299-Loans for the Construction/acquisition of buildings by Indian Missions abroad.	(-)375	(-)375	(-)375	(-)375	There should be no minus balance under this head, as it indicates that more repayment has been made by Government than loans received. The excess debit under this head needs to be checked with reference to interest on loans repaid to see if interest has also been wrongly debited under this head. If no details are available (matter has been under investigation for over 6 years as per foot note in Finance Accounts) and no mis-appropriation or system defect is indicated, the book-keeping error needs to be written off to Government account.

11.3 The magazine "India"

The Embassy of India, Washington decided in September 1989 to bring out a monthly publication *"India"* replacing three publications brought out by the Embassy and one by its Consulate at New York. This was done with a view to effect economy and avoid duplication in communicating India's policies and programmes to the American Public, Congress, Administration, Corporations, Media, travel industry, academic institutions, think tanks and opinion makers. The first issue of the new magazine was brought out in January 1990, with a print order for 10,000 copies. It was followed by an equal number of copies of the February 1990 issue. But after bringing out fourth issue of March 1990 and combined April/May 1990 issue, the publication was discontinued and the four earlier publications which were discontinued were resumed from August 1990.

The expenditure incurred on the publication of the five issues of "India" and fees paid to a Consultant upto May 1990 amounted to Rs.21.41 lakhs ($ 1,30,563). The number who subscribed for the March, 1990 was only 325 and about 900 copies of the magazine were distributed free. The rationale for printing 10,000 was apparently not vindicated. The revenue earned by way of advertisement in the issue was negligible. The expenditure of Rs.21.41 lakhs incurred on the new magazine proved infructuous.

The Mission stated (October 1991) that an editorial Consultant was hired under the powers delegated to the Mission as the experience and qualifications of the India based official (functioning as editor of existing "India News") were not adequate to bring out the new monthly publication. The Mission added that the magazine had to be discontinued because of lack of firm support from the advertisers and subscribers. The reply from the Ministry has not been received (October 1991).

11.4 Inadequate planning and Management of Contract works

In December 1987 the High Commission of India (Mission), London took up a repair and some construction on a leasehold building at London with possession through Contractor "A". When the work was on, the Mission approached (April 1988) the Ministry to sanction new electrical installations and a new heating system in the building at a cost of Ƅ 2,52,000. While conveying approval, the Ministry advised (August 1988) Mission to carefully plan the award of contract. A fortnight before the receipt of the approval from the Ministry (August 1988) the Mission permitted Contractor 'A' to engage sub-contractor 'B' for the electrical installations and heating system in the building at a cost of Ƅ 352,000.

The Mission made numerous changes in the scope of the civil Works while the work was on as a result of which the Contractor "A" would not adhere to the construction schedule and prolonged his sub-contract with Contractor "B" by 34 weeks, excluding two weeks off-site time. In October 1989, sub-contractor "B" submitted a claim for ₤ 0.48 lakhs towards the cost of the time over-run in his contract. An amount of ₤ 0.33 lakh (Rs.8.79 lakhs) inclusive of value added tax was paid to the Contractor "B" by the Mission. In addition the Mission also received a claim from Contractor "B" for ₤ 9122 (Rs.3.16 lakhs) towards fee/ attendance charges payable to Contractor "A", the Architect, the Quantity Surveyor. The amount is still to be paid (June 1991) for want of sanction from the Ministry.

In their reply to Audit, the Mission stated (June 1991) that prolongation of the sub-contract was due to increase in the scope of work to be done by Contractor "A". It further stated in October 1991 that more expenditure on repair/ renovations would have been incurred had these modifications been executed after completion of work alloted to the sub-contractor.

In the result, inadequacies in planning of the civil works in clear terms and failure to monitor the implementation effectively despite the advice of the Ministry to determine the stage at which the contract for electrical installations and heating systems could have been optimally awarded, resulted in avoidable expenditure of Rs.8.79 lakhs and incurring of a liability of Rs.3.16 lakhs; both in foreign exchange.

11.5 Avoidable expenditure

(i) The Ministry appointed (May 1987) an interior designer to prepare a Report on the interior designing of "India House" which houses the offices of the High Commission of India at London (Mission) and she submitted her report in August 1987 after visiting India House in June 1987. The Mission engaged an architect for preparing drawings and photographs of the building at a cost of £ 8700 (Rs.1.73 lakhs) but the drawings and photographs were forwarded to the Ministry (for transmission to the interior designer) only after she had submitted her report in August 1987. The Mission stated (May 1991) that the interior designer had wanted schematic and working drawings of the building and as the original drawings were not readily traceable, the expenditure of Rs.1.73 lakhs was necessary. The reply is not tenable in view of the drawing and photographs becoming available, after the interior designer's visit to India House and submission of her report and as the original drawings could have been obtained from the Local Authority's archives in London. The Ministry has not approved the report on Interim design so far (September 1991).

(ii) The Ministry fixed (January 1984) a ceiling rate for purchase of curtains to be used in offices in the Missions abroad, at Rs. 55 per metre. It was also specified (July 1984) that curtain material should, as far as possible, be procured from India to create an Indian atmosphere. Local purchase could be resorted to only if it was decidedly economical and the expenditure was within the delegated powers of the Mission.

The High Commission of India London procured (January 1989) 100 metres of expensive curtain material from Cairo for use in a function in India House and ultimately for refurbishment of India House (proposal for which had not been approved). In February 1989, 700 metres of the same material was again procured from Cairo incurring an expenditure of $ 11,000 plus freight. The Mission, in May 1991, however, stated that only 317 metres of the said material had been put to use.

The matter was reported to the Ministry in July 1991, their reply has not been received.

11.6 Avoidable extra expenditure on works

In August 1988, a fire broke out in the Supply Wing of the Embassy of India, (Mission), Washington whereupon it was decided to remove of old wiring, replace old and faulty switches, replacement of fuse boxes with circuit breakers and take other measures necessary to bring the electrical wiring in conformity with the local safety code. Three local firms were contacted for quotations. Firms 'A', 'B' and 'C' quoted $ 49075, $ 52210 and $ 47500 respectively. The Mission awarded (January 1989) the work to firm 'C' at their tendered rate of $ 47500 (Rs.7.02 lakhs).

The quotations were invited over phone and not in writing. Firm 'A' had quoted a rate of $ 160 per tubelight fixture for the Chancery Building (110 fixtures) and $ 320 for the Supply Wing building (92 fixtures) while firm 'B' had quoted a uniform rate of $ 75 for each such fixture. Firm 'A' quoted $ 2035 towards other items, while the rate quoted by firm 'B' was $36460. No analysis was made by the Mission of the reasons for such wide divergence in rates quoted. Also no negotiations were held to bring down the rates for the various items of work and going by the lowest quotation for each item of work opportunity for saving of upto $13145 (Rs.1.94 lakhs) was lost.

The Mission in their reply agreed (November, 1990) that negotiations with firm 'A' could have brought down the price but claimed that their proposal did not include preventive measures which were included in the offer of firm 'C' who had also given a warranty of 5 years. The reply does not indicate cost of preventive measures nor state that warranty was not offered by others or how enforceable it was.

The matter was brought to the notice of the Ministry in July, 1990; no final reply has been received so far (October 1991).

11.7 Undue favour to firms

(a) The Naval Physical and Oceanographic Laboratory, Cochin (indentor) placed an indent on the Supply Wing, Washington in November 1989 for procurement of two sets of Portable Spectrum Analyser to the indentor's specifications.

In response to the tender enquiry, issued (January 1990) by the Supply Wing two manufacturers and three vendors furnished their quotations. None of the vendors gave the name of the manufacturer, technical details of models offered and certificate from the manufacturer, which were required as per notice inviting tender. The Supply Wing forwarded copies of all the quotations to the indentor for comments and for seeking availability of foreign exchange. The Supply Wing also informed the indentor in March 1990 that the Vendor Firm 'A' was the lowest bidder and quoted for equipment manufactured by firm 'X'.

Pending the release of foreign exchange, the indentor requested (May and July 1990) the Supply Wing to get the offer of Firm 'A' extended upto the end of September 1990. Firm 'A' agreed in September 1990 to extend the validity of its offer upto September 21, 1990 and informed the Supply Wing of the likely revision of prices beyond that date. Consequent on release of foreign exchange, the indentor requested the Supply Wing by telex on August 24, 1990 to place the purchase order.

The Supply Wing issued a telex on September 13, 1990 seeking clear recommendation from the indentor for accepting the offer of firm 'A' and ignoring the lower offer of firm 'B'. The fact that the lower offer was from firm 'B' had neither been mentioned by the Supply Wing earlier to the indentor nor brought to the specific notice of the indentor.

When no reply was received from the indentor, the Supply Wing made a technical evaluation of the offers from firm 'A' and 'B' on the last day of validity of the offer of firm 'A' and decided to place the purchase order on firm 'A' on the ground that the model offered by firm 'B' whose rates were lower did not 'seem' to be met some of the specifications given in the Notice inviting tender.

The fact of unsuitability of the model offered by firm 'B' was never raised earlier by the Supply Wing. In fact, in their telex of September 1990 to the indentor, the Supply Wing had enquired from indentor the reasons for ignoring the lower offer of firm 'B'. The validity of the offer of firm 'B' expired in May 1990 and no request was made to them by Supply Wing for extending the offer. Approval of the competent authority for ignoring the lower offer was also not obtained by Supply Wing as required under the delegation of financial powers to it. Ignoring the lower offer without valid reason thus resulted in avoidable extra expenditure of $ 9328.56 (Rs.1.53 lakhs).

While admitting (April 1991) that the statement made in their letter of March 1990, that the lowest quote was from firm 'A' was incorrect, the Supply Wing stated that the indentor was equally to blame as copies of all quotations had also been forwarded to him. The reply of Supply Wing is not tenable as Supply Wing is the procuring agency and it has to justify its decision on technical and financial grounds, which it had failed to do.

(b) Based on another indent received in November 1989, from the Chief Hydrographer, Naval Hydrographic Office, Dehradun (indentor) the Supply Wing, Washington placed a purchase order on firm 'K' in May 1990 for procurement of 20 items of spares at a cost of $ 0.21 lakh. In June 1990 the supplier expressed his inability to supply one item according to specification. The indentor requested the Supply Wing in July 1990 to procure three additional items of spares in lieu of that item. The Supply Wing issued a limited tender enquiry in October 1990 for the three items of spares.

In response to the tender enquiry, only the bid from tender 'B' was considered. The Supply Wing, however, intimated the rate of the lowest available offer to the indentor in February, 1991 but it was different from the rate quoted by firm 'B'. After receiving confirmation from the indentor, purchase order for supply of the three items at a cost of $ 3605 was placed in February 1991 on firm 'A' who had not sent any quotation in reply to the tender enquiry. There was nothing on record to indicate how the quotation of firm 'A' was received and why it was considered by the Supply Wing ignoring the valid effective single quotation received from firm 'B'. The rates for each of the three items at which the order was placed on firm 'A' were marginally lower than the rates quoted in the valid offer of firm 'B' resulting in a saving of $ 16.20.

The two cases would indicate that the system of tendering followed by Supply Wing was defective and possibility of undue favours having been shown to firm 'A' cannot be ruled out.

The cases were referred to the Ministry in July 1991; their reply has not been received (October 1991).

11.8 Overpayment to an architect

High Commission of India, London (Mission) appointed (May 1985) a firm of Architects for reconstruction of a leasehold building at London. The firm's fee was to be determined as a fixed percentage of the total construction cost and payable on proportionate basis on completion of each stage of reconstruction, as given below:

(i) Preparation of outline proposals, approximate costs, scheme designs and estimated costs (35 percent of the total fee).

(ii) Completing detailed designs, working drawings and obtaining planning approvals (40 per cent of the total fee).

(iii) Obtaining tenders, appointment of contractor and supervision of work (25 per cent of total fee).

A sum of ƒ 12,254 representing 25 percent of the total fee was paid on completion of the work of preparation of outline proposals, approximate costs etc. in October 1985. In January 1988, the firm submitted an invoice for ƒ 33,640 for the all stages upto preparation of working drawings which was authorised for payment in March 1988 by the Mission without deducting the amount of ƒ 12,254 already paid in October 1985. Scrutiny also revealed that an overpayment of ƒ1,035 was made to the firm due to wrong calculation of the architect's fee.

On the matter being pointed out (July 1991) by Audit, the Ministry, while admitting the overpayment, intimated (August 1991) that recovery of ƒ 13,289 (Rs. 5.54 lakhs at prevalent rate of exchange in August 1991) would be made from pending bill of the firm. The recovery was still to be effected (September 1991). The Government has lost interest at 10% amounting to ƒ3.612 (Rs. 1.51 lakhs) so far.

11.9 Irregular payment or overpayment of representational grant

Representational grant is sanctioned to Heads of Missions and Posts and other officers of representational grades. It is meant to be utilised on expenditure connected with representational (entertainment) obligations. In an Embassy, an officer, who was not sanctioned representational grant either in terms of the conditions of his appointment or pay authorisation issued by the Ministry was allowed to draw representational grant amounting to Rs.1.25 lakh ($ 11,797) from August 1984 to August 1987. In another case, representational grant at rates payable to a Second Secretary was authorised to an officer in terms of the conditions of his appointment for the period during which he was heading a Wing. But, he was allowed to draw the representational grant (Rs.0.23 lakh or $ 2206) for a year after he ceased to be the head of the Wing. The unauthorised payment of representational grant to the officers amounted to Rs.1.48 lakhs.

These overpayments were pointed out to the Mission in June 1990. Details of recovery are awaited (July 1991).

11.10 Avoidable extra expenditure

11.10.1 Advice on repairs: For legally required repairs to be done on a leased building, a Mission paid Rs.3.49 lakhs to an architect for drawing up a schedule of repairs and Rs.60,000 to a Consultancy Engineer in connection with engineering survey of building. Approval of the Ministry was still (October 1991) to be received for the payments. Also the firm of architects did not submit the agreed schedule of repairs.

The Ministry also did not agree (July 1988) to certain refurbishment work holding there was no justification for extensive capital investment on the proposed repairs. They also advised that immediate repairs at 9 KPG should be delinked from the refurbishment plans. In August 1988, the Mission claimed that funds of £ 0.18 lakh provided for annual expenditure on repair and maintenance under its delegated powers was inadequate and requested for provision of additional funds for £ 0.23 lakh towards certain items of work. The Ministry requested (October 1988) for a detailed estimate of the additional funds with full justification for the proposed repairs and suggested that these should be kept to the minimum and to the inescapable repairs. The additional funds are still (October 1991) to be sanctioned.

In reply to an audit query, the Mission stated (September 1991) that legally required repair work has not been executed and fresh estimates for refurbishment work have to be obtained. In the result the Mission incurred avoidable expenditure of Rs.4.09 lakhs.

11.10.2 Refunds not claimed:

(a) One of the Missions abroad did not file the claim for refund of Value Added Tax (VAT) paid while purchasing furniture and fixtures during the years 1985-86 and 1986-87. The claims were not made till December 1990. It was stated by the Mission in May 1991 that the claims amounting to Rs.0.57 lakh were submitted in December 1990. Details of refund are awaited.

(b) Another Mission also did not claim refund of VAT paid on the rents for buildings occupied by offices and for its residential buildings. However, at the instance of audit, FF 73566 being a part of the VAT on rent paid for premises was claimed and refund obtained. The Mission had not assessed the VAT paid during the previous years in respect of other buildings or claimed refund so far. The amount could not be determined in audit as the particulars of VAT paid on these buildings during the past 5 years were not furnished by the Mission.

(c) National Book Trust of India participated in Book Fair in 1985, 1986, 1987 and 1988 in a foreign country. The Indian Consulate claimed refund of VAT paid but claim for Rs.0.23 lakh pertaining to 1987 was rejected for want of original bills evidencing payment of VAT.

(d) The Consulate was allowed refund of VAT on its purchases exceeding a certain amount from August 1989. But, the Consulate did not get refund of Rs.0.40 lakh on purchases from August to December 1989 due to non-submission of proof of payment of VAT to the authorities.

(e) On repair work to Mission building, a Mission could not obtain refund of VAT as the goods supplied by the contractor were not purchased by the Mission. Failure to get the invoices for the goods and materials used on the repair work in the name of the Mission led to refund of Rs.1.99 lakhs paid as VAT not being recovered.

In the result, the Mission of Ministry incurred avoidable extra expenditure of Rs.3.26 lakhs in foreign exchange because of failure to prudently spend the public funds, claiming the refunds due.

CHAPTER XII

Ministry of Finance

12.1 Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Ministry (Grant Nos. 24 to 36) amounted to Rs.98566.40 crores and Rs.41840.79 crores respectively. After adjusting the recoveries the amounts brought to account in Finance Accounts were Rs.98379.94 crores and Rs.41814.38 crores respectively.

The progressive capital outlay, as at 31st March 1991, on Fiscal and Economic Services is given below under respective capital major heads of account. The outlay should generate revenues and returns to Government. The revenue expenditure and revenue receipts in 1990-91 under the corresponding revenue heads of account are given alongside. The component of outlay invested in identifiable organisations or undertakings (whether declared commercial or not). Public Sector Undertakings and Cooperatives are given below within brackets. N.A. indicates information has not been made available in the accounts, though required to be given in some cases. The Chief Accounting Authority of the Ministry would need to take follow up action for getting wanting information in accounts and improving returns from capital outlays and investments. He may also need to drop from the progressive capital outlay the expenditures which are not correlatable to any assets in the register of assets, physical or financial and cannot also be truly entered in the register of assets so as to rectify omissions. Action has also to be taken to declare activities identifiable as "Departmental Undertakings" and those which should make profits as "Departmental Commercial Undertakings". All Public Sector and other Undertakings, cooperatives and Departmental Commercial and non-Commercial Undertakings need to be listed in Statement No.11 of the Finance Accounts indicating the capital invested in them and the return realised from them.

(Rupees in crores)

Sl. No.	Major Head	Progressive Capital Outlay as at the end of 1990-91	1989-91	1988-89	Revenue Expenditure 1990-91	Revenue Receipts 1990-91
1.	2.	3.	4.	5.	6.	7.
1.	4046-Capital Outlay on Currency Coinage and Mints.	452.40	423.57	404.85	235.79 (Head 2046)	252.77 (Head 0046)
	(4046-101-Currency Note Press)	(88.74)	(88.17)	(83.11)	(94.03) (Head 2046-101)	(89.81) (Head 0046-) 101)
	(4046-102-Bank Note Press)	(59.55)	(56.82)	(54.36)	(69.96) (Head 2046-102)	(72.01) (Head 0046-102)
	(4046-103-Security Paper Mills	(47.63)	(45.83)	(44.69)	(32.40) (Head 2046-103)	(32.77) (Head 0046-103)
	(4046-107-Mint)	(67.31)	(63.28)	(55.87)	(32.41) (Head 2046-107)	(19.11) (Head 0046-105)
	(4046-108-Silver Refinery)	(0.72)	(0.72)	(0.72)	(0.24) (Head 2046-108)	(8.22) (Head 0046-106)
	(4046-204-Purchase of RBI Share Investment)	(5.82)	(5.82)	(5.82)	--	(NA)
2.	4047-Capital Outlay on Other Fiscal Services.	5134.27	4992.84	4869.98	373.66 (Head-2047)	316.09 (Head-0047)
	(4047-105-India Security Press Nasik)	(46.24)	(42.02)	(38.82)	(74.11) (Head 2047-105)	(57.80) (Head 0047-105)
	(4047-107-Security Printing Press, Hyderabad)	(14.89)	(12.80)	(7.80)	(13.20) (Head 2047-107)	(10.46) (Head 0047-107)
	(4047-201-Subscription to IMF)	(4592.39)	(4592.39)	(4592.39)	--	(NA)

1.	2.	3.	4.	5.	6.	7.
3.	4885-Capital Outlay on Industries and Minerals	837.30	722.43	584.30	39.94 (Head 2885-01)	NA
	(4885-01-190-Investments in Industrial Financial Public Sector and Other Undertakings).	(829.26)	(717.38)	(581.75)	--	(NA)
4.	5465-Investments in General Financial and Trading Institutions	3357.39	2586.53	1847.16	--	NA
	5465-01-190-Investments in Public Sector and other Undertakings General Financial	(3296.42)	(2525.56)	(1786.19)	--	(NA)
	(5465-02-190-Investments in Public Sector and Other Undertakings Trading)	(60.98)	(60.98)	(60.98)	--	(NA)
5.	5466-Investments in International Financial Institutions.	3854.64	3172.87	2256.88	0.28 (Head 3466)	NA
	(5466-201-IBRD)	(437.65)	(319.43)	(221.48)	--	(NA)
	(5466-202-International Associations)	(44.68)	(43.93)	(43.47)	--	(NA)
	(5466-203-ADB)	(109.44)	(109.10)	(109.10)	--	(NA)
	(5466-204-IFC)	(53.23)	(48.75)	(40.69)	--	(NA)
	(5466-205-AFDF)	(48.97)	(41.53)	(35.06)	--	(NA)
	(5466-206-AFDB)	(4.07)	(3.52)	(3.01)	--	(NA)
	(5466-207-IMF)	(3156.59)	(2606.62)	(1804.07)	--	(NA)
6.	4875-Capital Outlays on Other Industries 01-Opium and Alkaloid Industries)	7.84	7.80	7.31	37.18 (Head 2875)	57.79 (Head 0875-01)
	(4875-01-107-Ghazipur Opium Factory)	(1.53)	(1.50)	(1.36)	(11.67) (Head 2875-01-107)	(19.58) (Head 0875-01-107)
	(4875-01-108-Neemuch Opium Factory)	(2.12)	(2.11)	(1.97)	(13.22) (Head 2875-108)	(26.64) (Head 0875-01-108)

1.	2.	3.	4.	5.	6.	7.
	(4875-01-109-Ghazipur Alkaloid Works)	(0.40)	(0.44)	(0.28)	(3.96) (Head 2875-01-109)	(3.85) (Head 0875-01 -109)
	(4875-01-110-Neemuch Alkaloid Works)	(3.80)	(3.75)	(3.69)	(8.17) (Head 2875-01-110)	(7.71) (Head 0875-01-110)
7.	4075-Capital Outlay on Miscell-aneous General Services	70.56	48.99	42.80	--	(NA)
	(204-Acquistion of Immovable property under I.T.Act)	(45.23)	(26.37)	(22.18)	--	(NA)
8.	5475-800-Capital Outlay on other General Economic Services-800 Other expenditure	33.86	21.28	0.98	-- (Head-3475)	NA (Head-1475)
	(L.I.C.)	(5.00)	(5.00)	(5.00)	--	(76.18) (Surplus for 89-90)
	(General Insurance Corporation)	(107.50)	(64.50)	(64.50)	--	(26.88 (for 1989-90)
	(Scheduled Castes & Scheduled Tribes Finance and Development Corporation)	(50.00)	(50.00)	(NA)	--	(NA)
	(International Finance Corporation)	(53.23)	(48.75) ($ 45.98 million)	(40.69)	--	(Nil)
	(International Bank for Recons-truction and Development)	(425.25)	(307.04) ($ 279.07 million)	(221.48)	--	(Nil)
	(African Development Bank)	(4.60) (PUA 3500)	--	--	--	(Nil)
	(Asian Development Bank)	(114.83) ($ 1)	(114.49)	(114.49)	--	
	(Reserve Bank of India)	(5.82)	(5.82)	(5.82)	--	(Plus Rs.210.12 crores share of surplus profit)
	(Exim Bank)	(256.80)	(233.80)	(220.50)	--	(8.00) (for 1989-90)
	(Nationalised Banks)	(2861.46)	(2090.60)	(1351.23)	--	(Rs.50.69 crores share of surplus profit)

1.	2.	3.	4.	5.	6.	7.
	(National Banks for Agriculture and Rural Development)	(50.00)	(50.00)	(50.00)	--	(Nil)
	(IDBI)	(703.00)	(637.00)	(540.00)	--	(Rs.69.58 share of surplus profit)
	(Industrial Reconstruction Bank of India)	(153.30)	(135.30)	(112.50)	--	(Nil)
	(Government employees Cooperative Bank)	Negligible	Negligible	Negligible	--	(Nil)
	(Andaman & Nicobar State Cooperative Bank)	(0.23)	(0.34)	(0.34)		(Nil)
	(Repatriates Cooperative Finance & Development Bank)	(1.96)	(1.96)	(1.96)		(NA)
	(Chandigarh State Cooperative Bank)	(0.79)	(0.53)	(0.28)	--	(NA)
	(Tripura State Bank Ltd.)	(17.50)	(17.50)	(17.50)		(NA)
	(Bank of Bhopal)	(3.00)	(3.00)	(3.00)		(NA)

The loans and advances given and outstanding as at 31st March 1991, for Fiscal and Economic Services are also given below, as indicated in statement no.15 of the Finance Accounts. The components of loan given to identifiable organisation or undertaking are given below within brackets. NA indicates that information has not been made available in the accounts though required to be given. The interest recovered will need to be given in the statement against loans under each minor head separately, in future, in addition to the interest on loans under the major head. Against some of the loans very little or no recovery has been made in the last three years and interest recovered is also relatively meagre. In statement No.3 of Finance Accounts, Ministry/Departmentwise and loaneewise, some of the outstanding loans and interest are indicated; but information is not complete. Also the amounts of loans outstanding and amounts of instalments overdue for recovery, both need to be given in the statement, in future. The

Chief Accounting Authority in the Ministry will need to take follow up action for getting wanting information and effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loaneewise details given in statement No.3 all the Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

(Rupees in crores)

Sl. No.	Head of Account	Amount of loan outstanding as on 31.3.91	Recoveries during			Interest recovered during		
			1990-91	1989-90	1988-89	1990-91	1989-90	1988-89
1.	6075-Loans for Miscell-aneous General Services	12.23	Nil	0.01	Nil	Nil	Nil	Nil
2.	6885-01-Loans to Industrial Finance Institutions	1657.12	62.47	57.76	47.50	Nil	Nil	Nil
	(6885-01-190-Loans to Public Sector & other undertakings)	(1656.77)	(62.47)	(57.96)	(47.40)	(Nil)	(Nil)	Nil
3.	7465-Loans for General Financial and Trading Institutions)	74.37	Nil	(0.24)	(0.08)	Nil	(0.05)	(0.05)
	(7465-101-Loans to General Financial Institutions)	(73.63)	(0.24)	(0.24)	(Nil)	(Nil)	(NA)	(NA)
4.	7605-Loans to Foreign Governments	2103.10	798.96	88.86	111.01	61.63	11.73	8.18
5.	7610-Loans to Government servants	633.35	100.95	85.15	76.01	5.82	5.08	14.06
6.	7615-Miscellaneous Loans	54.90	1.88	4.22	0.85	12.81	0.41	Nil

12.2 Adjustments to be made in Finance Accounts

In the balances at the end of 1990-91 which are reflected in the Finance Accounts the adjustment or review of the balances under the following heads of accounts needs to be made by the Chief Accounting Authority in the Ministry/Department as indicated in the remarks column. Adjustments required under some more heads are indicated in the following Annexure.

(Rupees in Crores)

Heads of Account	Balance as at the end of			Remarks
	1990-91	1989-90	1988-89	
1.	2.	3.	4.	5.
8443-Civil Deposits-106-Personal Deposits	66.46 (Dr.)	15.47 (Dr.)	17.20 (Dr.)	In 1990-91, deposits for Rs.8588 crores were received and in 1989-90, Rs.7489 crores. Deposits returned amounted to Rs.8640 crores in 1990-91 and Rs.7487 crores in 1989-90. The head serves as a local account for personal deposits. Such large amounts transacted in the Public Account outside the Appropriation Account requires a suitable note being given in the Finance Account explaining such large transactions under this head. The excess payments over receipts need explanation and rectification.
8449-Other Deposits 120-Miscellaneous Deposits.	6161.33 (Cr.)	6179.34 (Cr.)	9152.88 (Cr.)	The receipts and payments in 1989-90 under this head amounted to (-)Rs.263 crores and Rs.2709 crores. In 1990-91, they were Rs.27 crores and 46 crores. The large balances held under this residuary head intended to record deposits which cannot be accommodated under other minor heads, requires sub head being opened for each type of deposit. The reason for such large deposits in Public Account outside the Appropriation Account requires a suitable note being given in the Finance Accounts explaining such large balances under this head.

1.	2.	3.	4.	5.
8658-Suspense Accounts-115-Suspense Account for purchases etc. abroad.	744.06 (Dr.)	889.92 (Dr.)	610.12 (Dr.)	The net debit balance represents payments due from importers who have had their imports financed by foreign loan/assistance given under external assistance contracts of Government of India. On debit advice received from abroad loan account has been credited with per contra debit under this head. Payments have not been received from improters in India or not linked to the debit. See audit review on 'External Assistance' in this Audit Report.
8658-Suspense Account 118-Profit on Coinage	47.14 (Cr.)	47.14 (Cr.)	47.14 (Cr.)	The rationale for not crediting these amounts to revenue for many years needs review.
8658-Suspense Accounts-129-Material Purchase Settlement	158.81 (Cr.)	155.75 (Cr.)	148.54 (Cr.)	Credit balances not cleared for more than 3 years are to be cleared by credit to Revenue as per Central Public Works Account Code. This needs to be done as substantial portion of balance is clearly more than 3 years old. There was no clearance during the last 2 years.
8674-Security Deposits made by Government	198.87	165.07	147.21	The deposits made by Government with outside bodies such as Municipalities Corporations, Electricity Boards, Courts etc. are going up. The need for the deposits to continue without any recovery on adjustment noticed in the last two years need to be looked into in each Ministry and Department.
8679-Accounts with Government of other countries.	33.32 (Dr.)	29.77 (Dr.)	30.00 (Dr.)	The names of Ministry or Department responsible for recovery of dues from the foreign Governments and yearwise break up of old outstanding amounts need to be given in the Finance Accounts. Some balances are outstanding for long periods arising from transactions in respect of Posts, Telecommunications, Defence, Railways and Civil.

1.	2.	3.	4.	5.
6002-External Debt 201-Loan from Abu Dhabi Fund for Arab Economic Development.	(-)1.56	0.65	2.71	The minus balance is explained as excess repayment in rupees due to exchange rate variation which it is stated will be written back after loan is fully refunded. The excess needs to be transferred to expenditure head "loss or gain by exchange". On non adjustment of rupee balances under External Debt head with change in exchange rates see comment on "External Assistance" in this Audit Report.
6002-External Debt 215-Loans from IMF	(-)442.91	(-)316.52	(-)85.85	----do----
6002-External Debt 231-Loans from Govt. of UAE	(-)2.39	6.83	15.22	----do----
6002-External Debt 211-Loan from Govt. of Iraq	(-)1.38	(-)1.38	(-)1.93	The explanation of variation due to exchange rate is out of date. There has been no receipts or repayments over the last 3 years and in 1989-91 minus balance was reduced by clearing book keeping error. The clearance of further debits needs looking into.
8658-Suspense Account 101-Pay and Accounts Office Suspense	502.49 (Dr.)	396.22 (Dr.)	271.22 (Dr.)	The debits and credits under these heads represent adjustment of accounts not effected by Accounts Offices with one another and with banks. Such large amounts remaining unsettled under Suspense Account is fraught with risk of fraud or misappropriation. Yearwise breakup of such large amounts needs to be reflected in the Finance Accounts with reasons for non-settlement of old amounts.
8658-Suspense Account 102-Suspense Account Civil	354.92 (Dr.)	37.59 (Dr.)	196.33 (Cr.)	
8658-Suspense Account 107-Cash Settlement Suspense	276.68 (Dr.)	236.62 (Dr.)	212.08 (Dr.)	
8658-Suspense Account 108-Public Sector Bank Suspense	291.02 (Dr.)	279.11 (Dr.)	347.87 (Dr.)	
8658-Suspense Account 109-Reserve Bank Suspense Head-quarters	174.23 (Cr.)	176.95 (Cr.)	291.52 (Cr.)	
8658-Suspense Account 111-Departmental Adjusting Account	74.24 (Dr.)	76.96 (Dr.)	87.30 (Dr.)	

1.	2.	3.	4.	5.
8670-Cheques and Bills 102-Pay and Accounts Office Cheques	1801.17 (Cr.)	1283.31 (Cr.)	1719.13 (Cr.)	The credit under these heads get removed when the paid cheque is received back from the bank and cash balance is reduced. Such large amounts remaining unsettled under suspense and other accounts is fraught with risk of fraud or misappropriation. Yearwise breakup of such large amounts needs to be reflected in the Finance Accounts with reasons for non-settlement of old amounts.
8670-Cheques and Bills 103-Departmental Cheques	53.35 (Cr.)	30.10 (Cr.)	284.05 (Cr.)	
8670-Cheques and Bills 104-Treasury cheques	5.57 (Cr.)	5.55 (Cr.)	4.11 (Cr.)	----do----
8782-Cash Remittances and Adjustments between offices rendering Accounts to the same Accounts Officer.	1959.28 (Dr.)	2208.37 (Dr.)	1664.05 (Dr.)	The amounts lying in remittances for adjustment to final heads of account are getting old as the annual receipts and adjustment is way below the total outstanding. Under many minor heads no adjustments have been made for the last two years. The yearwise breakup of outstanding balances with reasons for non-adjustment of old balances needs to be given in Finance Accounts.
8785-Other Remittances	2.64 (Cr.)	2.64 (Cr.)	2.63 (Cr.)	----do----
8792-Exchange Accounts	12.64 (Dr.)	11.37 (Dr.)	16.02 (Dr.)	----do----
8794-Accounts with High Commission of India with U.K.	267.95 (Cr.)	267.95 (Cr.)	267.95 (Cr.)	These are old outstanding amounts not getting settled for many years. Action to write off or lapse amounts which cannot be adjusted needs to be taken.

Annexure

(Refers to paragraph 12.2)

Review and Adjustments requiring to be made in Finance Accounts in Ministry of Finance

(Rupees in thousands)

Sl. No.	Heads of Account	Balance as at the end of			Remarks
		1990-91	1989-90	1988-89	
1.		2.	3.	4.	5.
1.	8656-Suspense Account 104-Bronze and Copper Coinage Account.	2,13,57 (Cr.)	2,13,57 (Cr.)	2,13,57 (Cr.)	These two heads cannot have debit balances, if profits had been correctly credited every year alongside issues of coins for circulation. Omission to transfer to revenue needs rectification.
	108-Quaternary Alloy coinage Account	48,81 (Cr.)	48,81 (Cr.)	48,81 (Cr.)	
2.	8658-Suspense Account 112-Tax Deduction at Source Suspense	66,48 (Dr.)	26,91 (Cr.)	24,73 (Cr.)	This head cannot get a debit balance. The misclassification of excess debits into this head requires rectification.
3.	8658-Suspense Account 113-Provident Fund Suspense	4,05,12 (Cr.)	3,16,41 (Cr.)	2,42,80 (Cr.)	There has been little or no clearances of old balances from the Suspense head. Action is needed by Accounts Officers concerned.
4.	8658-Suspense Account 114-External Assistance Suspense	3,02,99 (Dr.)	3,03,00 (Dr.)	3,01,25 (Dr.)	----do----
5.	8658-Suspense Account 117-Transactions on behalf of Reserve Bank.	9,19,92 (Dr.)	9,85,34 (Dr.)	8,83,33 (Dr.)	----do----
6.	8658-Suspense Account 119-Additional wages Deposit Suspense Account	4,81 (Dr.)	4,87 (Dr.)	4,21 (Dr.)	This head cannot get a debit balance. The misclassification of excess debits into this head requires rectification.
7.	8658-Suspense Account 120-Additional Dearness Allowance Deposit Suspense Account	12,75,69 (Dr.)	12,10,88 (Dr.)	12,73,13 (Dr.)	----do----
8.	8658-Suspense Account 121-Additional Dearness Allowance Deposit Suspense Account New	5,47,59 (Dr.)	9,53,00 (Dr.)	9,07,18 (Dr.)	----do----

1.	2.	3.	4.	5.
9. 8658-Suspense Account-123-All India Service Officers Group Insurance Scheme	1 (Cr.)	1 (Cr.)	1 (Cr.)	This credit is to be set off against debits under this head arising from advance payments made by State/UT to Central Government. Since the net is a small credit pending for long it needs to be credited to revenue if it is not adjustable with any debit locatable.
10. 8658-Suspense Account--124-Payment on behalf of Central Claims Organisation-Pension and Provident Funds	3,47 (Dr.)	3,43 (Dr.)	3,11 (Dr.)	A note on the manner in which these old outstanding payments booked to a suspense head are to be recovered or finally booked needs to be indicated in a foot-note in the Finance Accounts.
11. 8658-Suspense Account-Adjustment in Debt Settlement with Pakistan	10,61,46 (Dr.)	10,61,46 (Dr.)	10,61,46 (Dr.)	----do----
12. 8658-Suspense Account-payments on behalf of Pakistan.	46,93 (Dr.)	46,93 (Dr.)	46,93 (Dr.)	----do----
13. 8658-Suspense Account-126-BRL Fee Suspense	1,33,21 (Dr.)	1,33,21 (Dr.)	1,33,21 (Dr.)	This head is to hold residuary credits of Broadcast Receiver Licence Fee pending booking to final receipt head. The fee had been abolished. The old debit balance is due to misclassification and needs to be rectified by writing back debit to correct head of account. Failing such action the debit balance needs to be written off to `Government Account' as a book keeping error.
14. 8658-Suspense Account 127-Investment account of Madhya Bharat Railways and Military Funds	52,31 (Dr.)	52,31 (Dr.)	52,31 (Dr.)	The nature of the investment needs to be looked into and action needs to be taken for its transfer to an investment Capital Head of Account or Deposit or Fund Head to which it is linked.
15. 8658-Suspense Account Transaction connected with war, 1939	11 (Dr.)	11 (Dr.)	11 (Dr.)	If there be no reason for it to be outstanding and there is no chance of the amount being recovered from any one, may be written off to Government Account.

1.		2.	3.	4.	5.
16.	8121-General and other Reserve Funds 109-General Insurance Fund (interest bearing)	2.10 (Cr.)	2.10 (Cr.)	2.10 (Cr.)	The reason for non-crediting of interest to the Fund balances needs looking into. The reasons for non-moving balances under head 8121-109 vis-a-vis balances in non-interest bearing General Insurance Fund under Head 8235-105 also requires looking into.
17.	8342-Other deposits (bearing interest) 107-Deposits towards payment of Estate duty.	1,03 (Cr.)	1,03 (Cr.)	1,03 (Cr.)	Being an interest bearing deposit, the deposit amount should have increased by the amount of interest credited every year. Needs review.
18.	8342-Other deposits (bearing interest) 108-Deposits of Income Tax, Super Tax, Excess Profits, Tax and surcharge	61,93 (Dr.)	61,93 (Dr.)	61,93 (Dr.)	A debit balance under this cannot arise. The misclassified debit under this head needs to be written back possibly to an identical non-interest bearing head under Major Head 8449-107.
19.	8443-Civil Deposits 118-Deposits of Fees received by Government Servants for work done for private bodies.	16,04 (Dr.)	16,03 (Cr.)	15,52 (Cr.)	The refund of fees or adjusting them cannot lead to a debit balance. The excess debit given in 1990-91 needs to be written back.
20.	8443-Civil Deposits- 124-Unclaimed Deposits in GP Fund-	1,00,19 (Cr.)	1,05,01 (Cr.)	87,45 (Cr.)	The reasons for not lapsing to Revenue unclaimed deposits lying under these heads for more than 3 years needs to be looked into.
	126-Unclaimed deposits on other provident funds.	1,97,11 (Cr.)	37,38 (Cr.)	81,15 (Cr.)	
21.	8443-Civil Deposits- 130-Provident Societies Liquidation Accounts.	25 (Cr.)	25 (Cr.)	25 (Cr.)	The reasons for these credits lying undrawn for years needs looking into for lapsing to revenue.
22.	8448-Deposits of local funds 102-Municipal Funds	17 (Dr.)	2,30 (Dr.)	2,30 (Dr.)	These heads cannot have a debit balance. The debit misclassified into these heads needs to be written back.
	104-Insurance Funds for Association of India	3,08 (Dr.)	3,08 (Dr.)	3,08 (Dr.)	
23.	8448-Deposits of Local Fund -103 Cantonment Funds	8 (Cr.)	8 (Cr.)	8 (Cr.)	The reasons for credits lying undrawn for years needs looking into for lapsing them to revenue.
	-111 Medical and Charitable Funds	52 (Cr.)	52 (Cr.)	52 (Cr.)	----do----

1.	2.	3.	4.	5.
24. 8449-Other Deposits 116-Advance Deposits for US Aid Projects.	15,67,31 (Dr.)	11,28,00 (Dr.)	35,79,86 (Cr.)	The head should only have credits lying under deposits till they are transferred to Loan or Revenue heads. The debit balance is the result of misclassification or adopting non-uniform exchange rates for deposits received and transferred in foreign currency. The debit needs to be written back.
25. 8443-Civil Deposits-107-Trust Interest Funds	20,10 (Dr.)	19,10 (Dr.)	22,70 (Dr.)	There should be no debit under this head and debit balances need to be transfered out. Failure to write back interest from the head if paid out on deposits refunded, needs to be rectified.
26. 8450-Balance Account of Union Territories				
101-Balance of Pondicherry	7,79 (Cr.)	2,68,28 (Cr.)	79,16 (Cr.)	These heads reflects balance in accounts of Union Territories which do not have balance with Reserve Bank. For UTs which have become states, these balances need review and adjustment to other heads of account.
102-Balance of Goa, Daman and Diu	16,30,26 (Dr.)	16,30,26 (Dr.)	16,30,26 (Dr.)	
104-Balance of Arunachal Pradesh	56,82,51 (Dr.)	56,82,51 (Dr.)	56,82,51 (Dr.)	
105-Balance of Mizoram	124,41,38 (Dr.)	124,41,38 (Dr.)	124,41,38 (Dr.)	
27. 8001-Savings Deposits-102-State Savings Bank Deposits	(-)15	(-)15	(-)15	The debit is outstanding for adjustment from prior to April 1986. If no details are available amount needs to be written off to Government Account.
28. 8002-Savings Certificates-102-State Savings	(-)92,35	(-)92,23	(-)93,65	----do----
29. 103-Treasury Savings Deposits Certificates	(-)7,19,16	(-)7,18,75	(-)7,17,75	----do----

1.	2.	3.	4.	5.
30. 104-Defence Savings Certificates	(-)21,55,49	(-)6,11,33	(-)4,37,11	The debit balance started in 1988-89 and is mounting. Original credits need to be traced and booked under this head.
31. 106-National Development Bonds	(-)2,04,59	(-)2,02,68	(-)2,37,73	The debit is outstanding for adjustment from prior to April 1986. If no details are available amount needs to be written off to Government account.
32. 8012-Special Deposits and Accounts 119-National Deposit Scheme	(-)32,02,60	(-)23,23,61	3,06,85	The debit balance started in 1989-90 and is mounting. Original credits need to be traced and booked under this head.
33. 6001-Internal Debt (vi) Compensation and other bonds Loan from LIC	(-)1,81	(-)1,81	(-)1,81	If details for the old debit under the head lying for years are not available amount needs to be written off.
34. 6002-External Debt 210-Loans from Government of Hungarian Peoples Republic	(-)29	(-)29	2,82	----do----
35. 6001-800 Other loans	(-)5,30	(-)5,30	(-)808	----do----

12.3 External Assistance

12.3.1 Introduction

External assistance (grants and loans) received by India from donor and lender countries or institutions abroad, annually, went up from Rs.1663.20 crores (at ex-IMF parity rate*) in 1984-85 to Rs.2387.87 crores in 1989-90. The major agencies giving external assistance are the International Development Association (IDA), International Bank for Reconstruction and Development (IBRD) (also referred to as World Bank), International Monetary Fund (IMF), Asian Development Bank (ADB) and countries like USA, Federal Republic of Germany, Japan, France and erstwhile USSR.

12.3.2 Accounting of external assistance

The loans and grants received by the Government of India enter the accounts of the Government, at the rate of exchange prevailing on the date of transaction/receipt. The monies in foreign exchange lie with Reserve Bank of India (RBI) and equivalent rupee amounts received enter the accounts of the Government of India. The sums outstanding are not increased by reference to subsequent changes in rates of exchange. Rupees which have to go out as repayment instalments are, generally, higher amounts than amounts received because of adverse changes in exchange rates.

The excess outgo on repayments, over the receipt in rupees, initially accounted as a debit under the Public debt head, is written off to revenue as loss by exchange under a grant voted by Parliament.

The Office of the Controller of Aid Accounts and Audit (Controller) in the Ministry of Finance (Ministry) maintains subsidiary accounts of the

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* ex-IMF parity rate is the pre-December 1971 exchange rate fixed by the IMF.

grants and loans received. RBI also accounts for the moneys in foreign exchange which get handled or controlled by it.

12.3.3 Scope of Audit

The subsidiary account records for the years 1985-86 to 1989-90 in the Office of the Controller of Aid Accounts were test-checked in audit and the major findings are given in the following paragraphs.

12.3.4 Highlights

- **During the six years 1985-91 external assistance contracted amounted to Rs.26379.78 crores at ex-IMF parity rates. Only Rs.13604.97 crores were utilised (received) during this period; utilisation declined from 73 per cent in 1985-86 to 67 per cent in 1990-91.**

  (Paragraph 12.3.5(iv)

- **The net inward transfer by way of external assistance (i.e.net receipts of grants/loans after adjusting the outgo on account of repayments and interest) declined from 53 per cent in 1985-86 to 36 per cent in 1990-91 of the loans utilised (received). The loans and grants actually received (at varying exchange rates) increased by Rs.3768 crores, from Rs.2936 crores in 1985-86 to Rs.6704 crores in 1990-91 ie more than 100 per cent; the net transfer, however, increased from Rs.1569 crores to only Rs.2422 crores over the period. Debt service payments (repayment of principal and payment of interest) accounted for 64 per cent of the external assistance received (utilisation) during 1989-90 and 1990-91 as compared to 47 per cent in 1985-86.**

  (Paragraph 12.3.6(i)

- **The share of IDA credit in external assistance declined from 32 per cent in 1980-85 to 11 per** cent in 1985-90 indicating a distinct hardening of terms in the external assistance received.

(Paragraph 12.3.7(i)

- The country's cumulative external debt (including External Commercial Borrowing) increased from Rs.40311 crores in 1985-86 to Rs.100425 crores in 1990-91, according to the Economic Survey 1991-92 presented to Parliament in February 1992. The amount of external debt outstanding as on 31st March 1991 as per Government accounts was, however, only Rs.31525 crores which had not been adjusted for exchange rate variations. Government guarantees for external liabilities of others in the country has aggregated to Rs.20965 crores. The debt servicing in a year as a percentage of foreign exchange reserves at the end of the year went up from 40.8 per cent in 1985-86 to 99.5 per cent in 1988-89. Debt servicing during the year 1989-90 required funds in excess of the foreign exchange reserves i.e. 135.4 percent of the foreign exchange reserves.

(Paragraphs 12.3.8(i) and 12.3.8(iii)

- The External Commercial Borrowing (ECB) mostly contracted by Government controlled bodies in the country outstanding for repayment went up from Rs.7647 crores at the end of 1985-86 to Rs.26706 crores at the end of 1990-91. The net inward capital transfer through ECB as a percentage of ECB utilised during 1985-86 was 35 per cent but declined to 28 per cent in 1989-90. The net capital transfer realised through ECB during 1990-91 was negative, at minus Rs.956 crores.

(Paragraph 12.3.9)

- The total debt service payments on external loans on Government account and ECB are estimated to increase from Rs.6727 crores in

1989-90 to Rs.15239 crores in 1995-96. The devaluation of the rupee in 1991 resulted in increase in projected debt service payments by 33 per cent every year.

(Paragraph 12.3.11)

- The deposits in foreign currencies received by banks in India from Non-Resident Indians into Non-Resident External Rupee (NRER) and Foreign Currency Non-Resident (FCNR) Accounts which are repayable in foreign currency, increased from Rs.5650 crores in 1985-86 to Rs.20754 crores in 1990-91.

(Paragraph 12.3.10)

- Inclusive of NRI deposits, the external liabilities as on 31st March 1990 constituted 25 per cent of the GNP for 1989-90.

(Paragraph 12.3.10)

- The ability to absorb external assistance was tardy and implementation of projects was not correlated to drawal schedule agreed to while contracting external loans. As a result, avoidable commitment charges were paid. In six credits, commitment charges aggregating US dollars 17.67 million were paid.

(Paragraph 12.3.12(iii)

- A sum of Rs.346.67 lakhs was short recovered from importers because of incorrect computation of composite rate of exchange.

(Paragraph 12.3.13(i)

- The date of debit advice was wrongly taken as the date of utilisation in the use of Soviet credits by importers resulting in short recovery of Rs.360 lakhs from the importers.

(Paragraph 12.3.13(iii)

- **Incidental charges amounting to Rs.17.66 lakhs were not recovered from importers during the years 1985-88.**

(Paragraph 12.3.13(iv)

- **Recovery of interest at lower rate from importers resulted in short recovery of Rs.32.82 lakhs.**

(Paragraph 12.3.14(i) & 12.3.14(ii)

- **Contrary to the prescribed procedure, the negotiable documents were released to Public Sector Undertakings (PSUs) without obtaining payment of Rs.179.99 crores from them.**

(Paragraph 12.3.15)

- **Receipt of loan instalment of 7 million roubles for Tehri Hydro Power Project even before the project authority was constituted resulted in avoidable payment of extra interest charges.**

(Paragraph 12.3.18)

- **The outstanding amounts of external loan or recovery from importers as per the subsidiary records of the Controller did not agree with the outstanding amounts as per the accounts records of the Pay and Accounts Officer. Adjustment of Rs.61.94 crores was made in the accounts without verification.**

(Paragraph 12.3.19(iii)

12.3.5 Contracting for loans/grants and utilisation

(i) The figures for external debt in the accounts of the Government were Rs.28342.69 crores as on 31st March 1990 and Rs.31524.97 crores on 31st March 1991. External loans guaranteed by Government which were outstanding on 31st March 1990 were Rs.13,478 crores and on 31st March 1991 were Rs.20965 crores. These amounts are not at a fixed exchange rate nor have they been updated at current exchange rates.

(ii) Foreign grants and loans contracted by the Government of India or external loans contracted by Government controlled bodies and some others in India, under guarantees given by Government of India (referred to as 'Authorisation) as well as the amounts utilised (or disbursed for use) during the years 1985-86 to 1990-91 are given in the table below (at ex-IMF parity rate):-

Table 1.1

(Rupees in crores)

	Authorisation		Utilisation		Percentage utilisation at the end of the year
	Opening balance	During the year	Opening balance	During the year	
1985-86	37033.18*	4004.94	28089.19	1671.51	73
1986-87	40938.05*	4236.92	29748.28	2014.99	72
1987-88	44005.78*	4693.77	31681.00	2531.43	70
1988-89	48699.55	6139.37	34212.43	2591.95	67
1989-90	54838.92	4581.27	36804.38	2387.87	66
1990-91	59420.19	2723.51	39192.25	2407.22	67

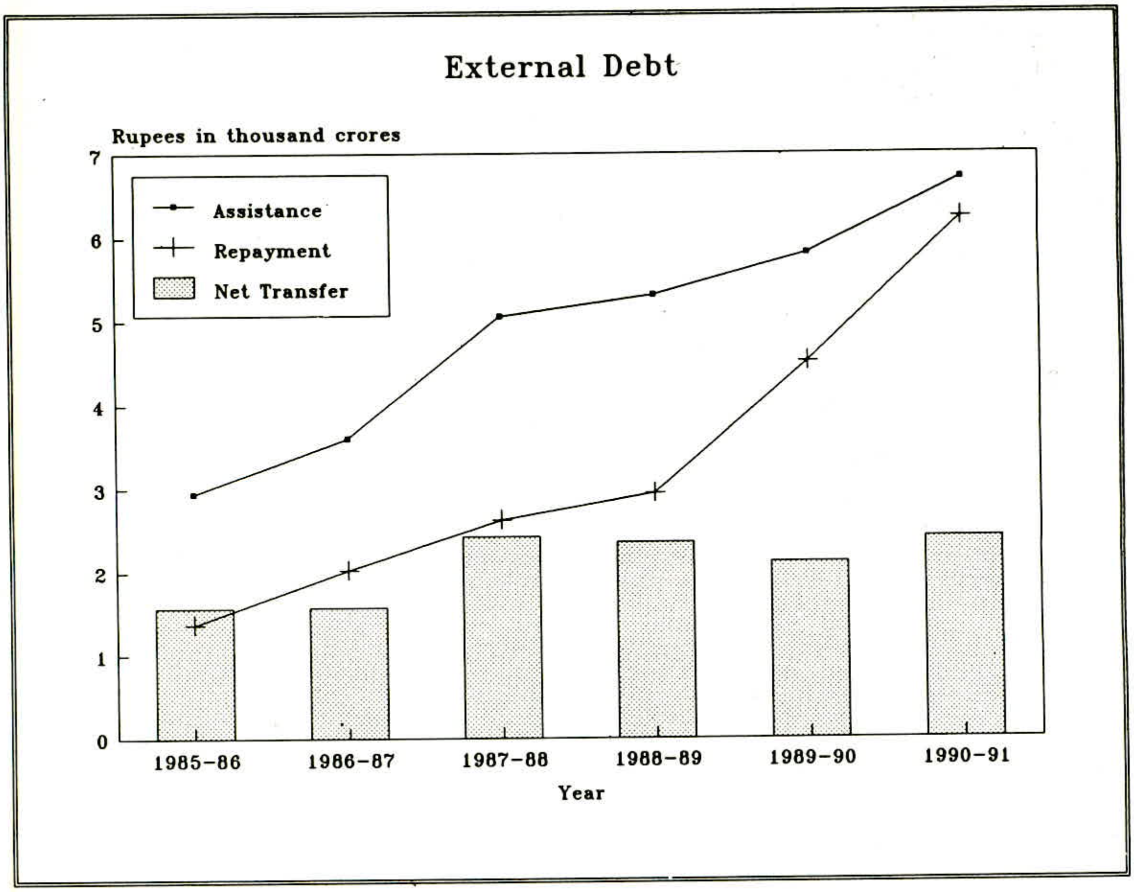
* The opening balance differs due to corrections carried out in previous years' accounts.

Sources: (1) Upto 1987-88: Brochures on External Assistance brought out by the Ministry of Finance.

(2) 1988-89 to 1990-91: As intimated by the Controller.

(iii) The figures of utilisation (disbursement) given in Table 1.1 and in the Economic Survey of the Ministry of Finance as given in Table 1.2 differ from figures in the accounts of Government of India, as the former also include external grants (not repayable) and non-Government loans which are guaranteed by Government of India

(iv) During the six year period (1985-91), the fresh external assistance contracted for by Government amounted to Rs.26379.78 crores at ex-IMF parity rates (total of annual figures in Table 1.1) and utilisation during that period was only Rs.13604.97



External Debt
Rupees in thousand crores
Assistance
Repayment
Net Transfer
0
1
2
3
4
5
6
7
1985-86
1986-87
1987-88
1988-89
1989-90
1990-91
Year

crores (52 per cent). The utilisation declined over the five years from 73 per cent at the end of 1985-86 to 67 per cent at the end of 1990-91.

(v) External grant or loan assistance is utilised in two ways; (i) by a user (e.g. a bank or importer) of foreign currency in India reimbursing the rupee equivalent to Government (reimbursement procedure) and (ii) by the foreign donor paying monies in foreign currency to the foreign supplier of the user in India (direct payment procedure) and sending a loan/grant utilisation debit advice to the loanee (Government, PSU etc.) in India. A slight variation of the latter procedure is the procedure in which payment is made to the foreign suppliers' bank by the foreign grant or loan giver against a letter of credit (against foreign grant or loan) opened by the Indian importer.

12.3.6 Net transfer

(i) While external assistance contracted for had gone up in real terms (at ex-IMF parity rate i.e. discounting the steep fall in rates of exchange of rupee over the years), the net transfer (i.e. net receipts of grant/loan after adjusting for repayments and interest outgo) into India by way of external assistance had declined.

Table 1.2

(Rupees in crores)

	Authorisation	External Assistance Loans and Grants disbursed (utilised)	Repayment Principal	Repayment Interest	Net inflow	Net transfer	Net transfer as percentage of external assistance
1.	2.	3.	4.	5.	6 (3-4).	7 (6-5).	8.
1985-86	5650	2936	776	591	2160	1569	53
1986-87	6160	3605	1176	853	2429	1576	44
1987-88	9265	5052	1581	1043	3471	2428	48
1988-89	13070	5304	1646	1300	3658	2358	44
1989-90	10826	5802	1987	1699	3815	2116	36
1990-91	8123	6704	2329	1953	4375	2422	36

Source: Economic Survey 1991-92.

Note: These figures differ from those in Table 1.1 (at ex-IMF parity rates) as the conversion rate of exchange obtaining on the last date of each year has been applied on loan and grant accounts maintained in foreign-currency by the Ministry, to arrive at figures in this table.

Repayment of external loans (principal and interest) accounted for 64 per cent of external assistance received (utilisation) during 1989-90 and 1990-91, as compared to 47 per cent in 1985-86.

(ii) The figures of authorisation and utilisation of external assistance put out by the Reserve Bank of India in its annual reports on Currency and Finance are computed at the average exchange rate for the respective year (for assistance utilised) as will be seen from Tables XI-9, XI-13, XI-14 and XI-16 of the said Report for 1989-90 reproduced in Annexures I to IV. The figures therein differ slightly from figures in Table 1.2.

(iii) In addition to repayment of principal and interest outgo, the outflow by way of service charges payable to the International Monetary Fund (IMF) on drawals made under the Extended Fund Facility (EFF), Standby Arrangement and Compensatory and Contingency Financing Facility (CFF) amounted to Rs.291 crores in 1989-90 and Rs.205 crores in 1990-91 as against Rs.417 crores in 1985-86. After taking into account, service charges paid to IMF, the net transfer as a percentage of external assistance received fell from 39 per cent in 1985-86 to 31 per cent in 1989-90 and was 33 per cent in 1990-91. In other words, while the burden of foreign debt is growing by the amount of additional loans utilised, less than one third (31-33 per cent) of the additional loans and grants went to make a positive inflow of foreign capital into India. The rest was utilised only to repay past loans or pay interest and service charges.

12.3.7 Composition of external assistance

During the years 1980 to 1990 the share of IDA in external assistance declined from 32 per cent during 1980-85 to 11 per cent during 1985-90. The balance assistance was mostly from the World Bank and IMF. Thus there was a distinct hardening of terms in the external assistance received.

12.3.8 External Debt

(i) As per the Economic Survey 1991-92 presented to Parliament in February 1992, India's medium and long term external debt consisting of external assistance on Government and non-Government account, External Commercial Borrowings and IMF liabilities amounted to Rs.100425 crores (US $ 51.1 billion) at the end of March 1991 and constituted about 19 per cent of GDP.

The table below shows the growth in external debt and debt servicing during the years 1985-86 to 1990-91.

Table 1.3

(percentages)

Year	External debt (Rupees in crores)	External debt to GNP	Debt service ratio	Interest service ratio	Interest payment to GNP	Debt servicing to foreign exchange reserves
1985-86	40311	17.37	17.3	8.6	0.69	40.8
1986-87	49069	19.07	22.9	9.8	0.77	56.6
1987-88	55034	18.87	24.2	9.2	0.77	76.9
1988-89	69732	19.97	23.0	8.9	0.78	99.5
1989-90	80345	20.47	21.6	9.1	0.91	135.4
1990-91	100425	NA	NA	NA	NA	84.9

NA: Not available
Source for GNP: Economic Survey 1991-92
Source for foreign exchange reserves:
(i) upto 1990: Report on Currency and Finance 1989-90 Reserve Bank of India.
(ii) 1990-91: Annual Report of the Reserve Bank of India 1990-91.

External debt increased by nearly 150 per cent between the end of 1985-86 and the end of 1990-91. The growth of external debt was faster than the growth in GNP. Consequently external debt as a percentage of Gross National Product (GNP) increased over the five years from 17.37 percent in 1985-86 to 20.47 per cent in 1989-90. The percentage of external debt to GNP as on 31st March 1991 could not be ascertained.

(ii) The Ministry stated, in December 1991, that the figures in Economic Survey reflect the outstanding amount of loans in currencies of foreign lenders after converting them into rupees at the exchange rates prevailing at the end of the financial year. The difference between the figures in the Economic Survey and the figures in Government accounts as given in para 5.1 was stated to be due to the figures in Government accounts not being updated to reflect the exchange rate at the end of the year to which the Government account relates. The Ministry needs to introduce proper system of revaluation of external liabilities (including contingent liabilities) with reference to exchange rate variations.

(iii) The proportion of amortisation and interest payments (the total outgo on foreign debts) to exports and invisibles excluding official transfer receipts (debt service ratio) peaked to 24.2 per cent in 1987-88 from 17.3 per cent in 1985-86 and marginally declined to 21.6 per cent in 1989-90.

The cost of servicing external debt during the year as a percentage of foreign exchange reserves at the end of the financial year was 40.8 per cent in 1985-86 and increased to 99.5 per cent in 1988-89 and to 135.4 per cent in 1989-90. Thus the foreign exchange reserves as on 31st March 1990 were not even sufficient to meet the cost of servicing external debt during 1989-90. Although the position improved by 31st March 1991, this was inter alia because of the upward revaluation of 'Gold component' of foreign exchange reserves on 17th October 1990.

12.3.9 External Commercial Borrowings (ECB)

The external commercial borrowing, (loans contracted for more than a year) from banks and financial institutions abroad are contracted mostly by Public Sector Undertakings and financial institutions in India. The ECB outstanding for repayment went up from Rs.7647 crores at the end of 1985-86 to Rs.22065 crores at the end of 1989-90 and 26706 crores at the end of 1990-91. ECBs (which are indirect external debt of the Government of India as the guarantor of the debt) constituted 19 per cent of the external debt in 1985-86 and went up to 27 per cent in 1989-90 and 1990-91. But the debt servicing component attributable to ECB was higher at 36 per cent of the debt servicing of external debt in 1989-90 and 41 per cent of the debt servicing of external debt in 1990-91 (because of shorter term for repayment of ECB). ECB debt servicing represented 49 percent of the foreign exchange reserves at the end of 1989-90 and 35 per cent of the foreign exchange reserves at the end of 1990-91; the decline was due, inter alia, to revaluation of 'gold component' of foreign exchange reserves, on 17th October 1990.

India's external commercial borrowings during the years 1985-90 were as under:

Table 1.4

(Rupees in crores)

Year	Autho-risation	Gross disbursed	Debt servicing	Net transfer	Net transfer as a percentage of ECB disbursed
1985-86	1700	1799	1175	624	35
1986-87	1396	2474	1565	909	37
1987-88	2654	2252	1736	516	23
1988-89	4314	4069	2224	1845	45
1989-90	5479	4196	3041	1155	28
1990-91	3414	3050	4006	(-) 956	(-) 31

Source: Economic Survey 1991-92.

The net inward capital transfer through ECB as a percentage of ECB disbursed during 1985-86 was 35 percent, but declined to 28 per cent in 1989-90. The net capital transfer realised through ECB during 1990-91 is negative, at minus Rs.956 crores.

The Ministry stated, in December 1991, that no guidelines or general principles had been set with regard to planning, phasing and timing of external commercial borrowing. While the volume of commercial borrowings and the timing depended on several external factors like conditions in international capital markets and perception of Indian issues by lending institutions, the Government tried to maintain a sustainable level of debts, keeping in view the end use of funds and the likely capacity to service the debt.

12.3.10 Non-Resident Indian Deposits

Under schemes approved by Government of India and the Reserve Bank of India the deposits in foreign currencies received by banks in India from Non-Resident Indians in Non-Resident External Rupee (NRER) Accounts and Foreign Currency Non Resident (FCNR) Accounts increased from Rs.5650 crores in 1985-86 to Rs.17831 crores in 1989-90 and Rs.20754 crores in 1990-91 (inclusive of accrued interest in NRER accounts). The share of FCNR deposits increased from 39 per cent in 1985-86 to 65 in 1990-91. FCNR deposits are protected against exchange rate variation risk while NRER deposits are not. The balances in the NRER and FCNR accounts can be repatriated outside India at any time without reference to the Reserve Bank of India.

The aggregate external liabilties of the Government of India inclusive of guarantees and liability towards deposits of non-resident Indians, from 1985-86 onwards, is given below:-

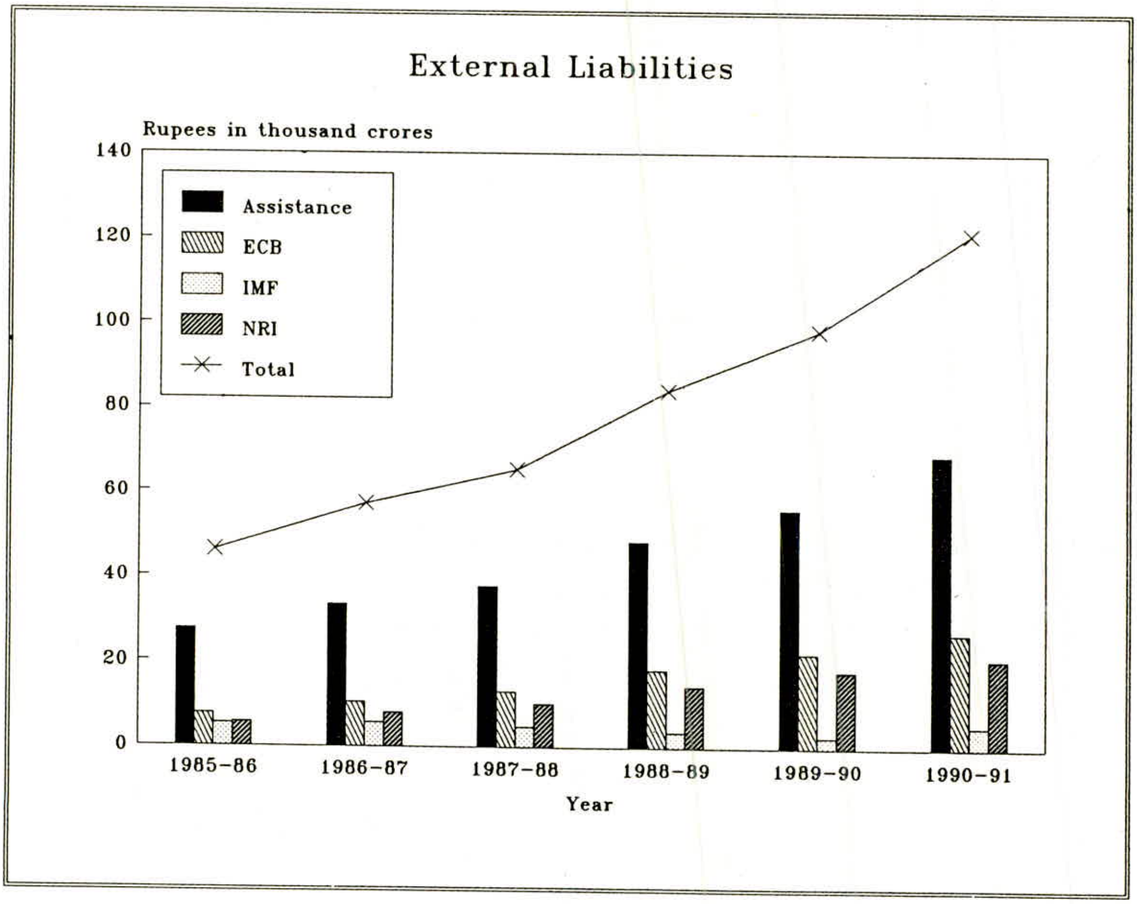
Table 1.5

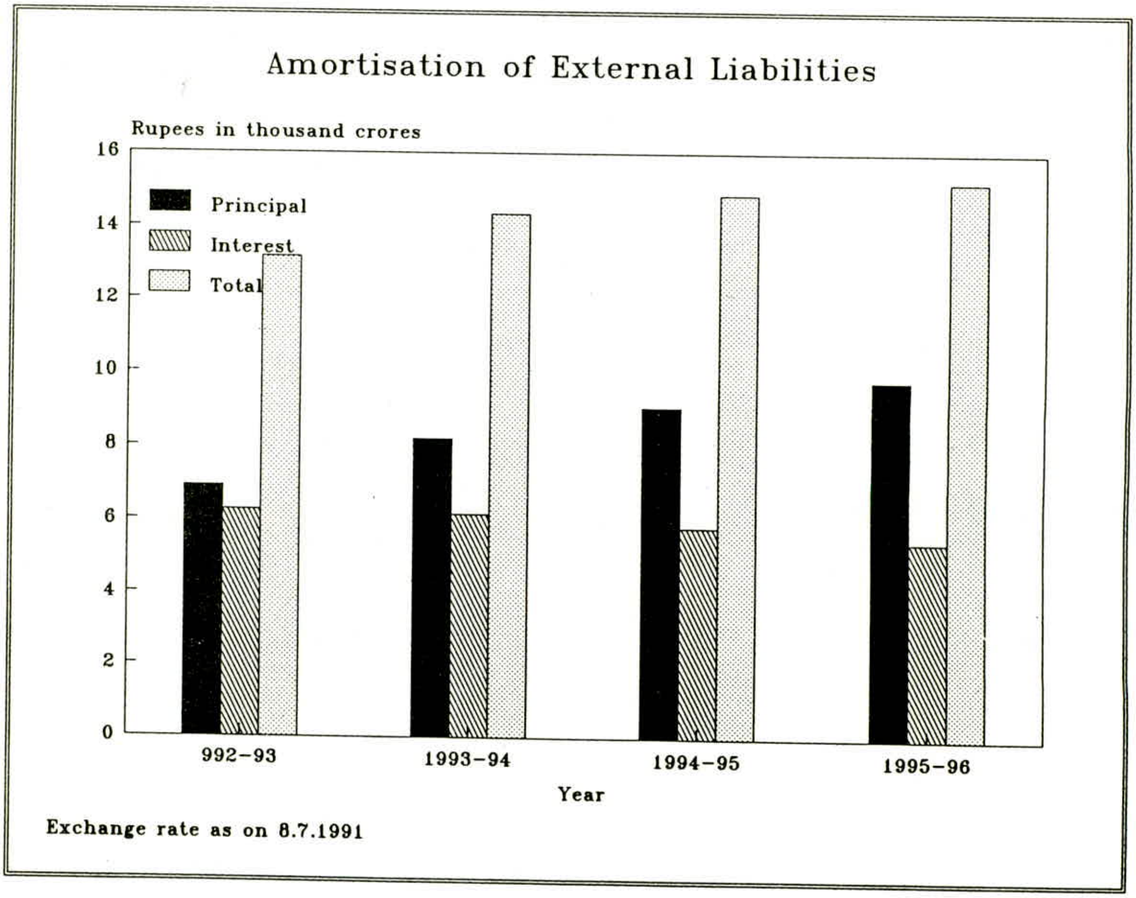
(Rupees in crores)

Year	External debt	Non Resident Deposits*	Total External Liabilities	Total External liabilities as a percentage of GNP
1985-86	40311	5650	45961	19.8
1986-87	49069	7847	56916	22.1
1987-88	55034	10054	65088	22.3
1988-89	69732	14154	83886	24.0
1989-90	80345	17831	98176	25.0
1990-91	100425	20754	121179	NA

* Exclusive of accrued interest on FCNR deposits

The deposits in India by Non Resident Indians (exclusive of interest on FCNR deposit) which were repatriable outside India at any time without reference to the Reserve Bank of India, amounted as


External Liabilities
Rupees in thousand crores
140
120
100
80
60
40
20
0
Assistance
ECB
IMF
NRI
Total
1985-86
1986-87
1987-88
1988-89
1989-90
1990-91
Year


Amortisation of External Liabilities
Rupees in thousand crores
Principal
Interest
Total
0
2
4
6
8
10
12
14
16
992-93
1993-94
1994-95
1995-96
Year
Exchange rate as on 8.7.1991

on 31st March 1990 to 285 per cent of foreign exchange reserves on that date. Such deposits amounted to 180 per cent of foreign exchange reserves as on 31st March 1991; the improved ratio was inter alia on account of revaluation of 'Gold' holdings on 17th October 1990.

12.3.11 Amortisation of external loan and other liabilities

According to information furnished by the Controller in January 1992, the estimates of projected debt service payments on external loans on Government account and ECBs* committed upto March 1991 and due in the years 1992-93 to 1995-96 are given below:-

Table 1.6

(Rupees in crores)

Year	At exchange rate at the end of March 1991			At exchange rate as on 8th July 1991		
	Principal	Interest	Total	Principal	Interest	Total
1992-93	5218.89	4714.34	9933.23	6907.00	6266.00	13173.00
1993-94	6183.13	4631.96	10815.09	8197.00	6152.00	14349.00
1994-95	6817.30	4386.29	11203.59	9050.00	5826.00	14876.00
1995-96	7371.29	4105.11	11476.40	9792.00	5447.00	15239.00

The annual debt service payments were expected to go up by 71 per cent from Rs.6727 crores in 1989-90 to Rs.11476 crores in 1995-96 at the rate of exchange as at the end of March 1991. The total debt service payments for 1995-96 have been estimated at Rs.15239 crores at exchange rates on 8th July 1991 (up by 127 per cent compared to 1989-90). The downward adjustments of exchange rates in July 1991 have increased the projected debt service payments by nearly 33 per cent each year. This is exclusive of the outflow by way of service charges payable to IMF on drawals made under the Standby Arrangement of IMF and Compensatory and Contingency Financing Facility.

The Ministry was requested, in October 1991, to intimate whether any projection has been made of how

* Excludes loans for less than one year

foreign exchange for meeting the debt service payments will be generated. The Ministry stated, in December 1991, that foreign exchange earnings will be generated out of the components of the balance of payments e.g. exports, in trade account, earnings from tourism and remittances from abroad (in the invisibles). The Ministry also stated that estimates and projections for trade were normally prepared by the Ministry of Commerce. Projections of invisible receipts and payments were made by the Reserve Bank of India and capital account receipts were estimated in the different units of the Department of Economic Affairs.

There is a fundamental difference between internal and external debt. Internal debt involves transfers from one sector to another sector within the country. External debt supplements domestic resources. This distinction is meaningful from the point of view of repayment also. The servicing of external debt necessitates the export of goods and services involving transfer of resources to outside the country.

The above reply of the Ministry would indicate that no projection for debt service payments has been furnished to Audit to enable it to comment on the adequacy of provisions for debt service payments made by the Ministry, to repay the external loan and other liabilities of the Government of India.

12.3.12 Commitment charges

(i) On many loans, specially those contracted with the World Bank, in addition to the interest and service charges payable to the lender, the borrower was required to pay a commitment charge on the principal amount of the loan as remained undrawn beyond specified dates. Failure to draw the loan as per schedule or incomplete utilisation of loan contracted for resulted in payment of additional commitment charges. Rs.376.84 crores were paid as additional commitment charges to the World Bank, the Asian Development Bank, the Federal Republic of

Germany and France during the years 1985-86 to 1989-90. Of this amount, Rs.355.11 crores (94 per cent) was paid to the World Bank (IBRD) and IDA. A part of the commitment charges, like the service charge, was written into the loan agreement and was, therefore, inevitable. But the balance of commitment charges were avoidable and became payable because of incomplete or delayed drawal.

(ii) In paragraph 2.35 of its fifty fifth report (Fourth Lok Sabha), the Public Accounts Committee (1968-69) reiterated its recommendations made in paragraph 1.25 of its fifty fifth Report (Third Lok Sabha) that payments on account of commitment charges should be minimised. The Committee also drew attention to the observations of the Estimates Committee in paragraph 4.38 of its eleventh Report (Fourth Lok Sabha) about the need for advance detailed planning and realistic assessment of foreign assistance requirements, so as to reduce to the minimum the payment of commitment charges. In June 1969, the Ministry issued instructions that the objectives underlying these recommendations were to be achieved by ensuring that the formulation of projects requiring external assistance and their implementation were carried out in an expeditious manner and on the basis of realistic estimates.

In Paragraph 1.17 of the Report of the Comptroller and Auditor General of India for the year ended 31st December 1987 (No. 10 of 1988) Union Government (Civil) mention was made that the quantum of unavoidable commitment charges payable on unutilized external loans and commitment charges payable because of failure or delays in drawal of loans was not ascertainable. The Ministry stated, in December 1988, that it was very difficult to ascertain the unavoidable commitment charges and commitment charges payable because of failure or delays in the drawals of credits. On why the two components are not ascertainable in the records of the Ministry, separately, the Controller amplified, in June 1991, that while the loan agreements contained provision for payment of commitment charges on undisbursed balance, they did not lay down the disbursement profile. Therefore, information on what should have been the undisbursed balance at any time could not be computed. It is surprising how the profile of disbursement could be left unspecified. Nevertheless, in the case of World Bank credits which accounted for 94 per cent of the commitment charges paid during the years 1985-86 to 1989-90, the disbursement schedule in the agreement was specified as the schedule available in the Staff Appraisal Report (for the projects) of the lender accepted by the Ministry. Further, the credit agreements concluded by the Ministry invariably specified a closing date for drawal of loans. Loan unutilized beyond the closing date will, therefore, give rise to commitment charges that were clearly avoidable.

(iii) In six projects, US $ 3.05 million was paid as commitment charges on the amounts of loan remaining undrawn on the closing date specified in the credit agreement. In addition, commitment charges amounting to US $ 14.62 million were paid even within the currency of the credit agreement because of delays in drawal reckoned with reference to the schedule in the Staff Appraisal Reports, accepted by the Ministry. Details are given in Annexure V.

The reasons for delay in drawal of loans were given as paucity of rupee resources or inadequate counterpart rupee funding, inadequate budgetary allocations in the State budgets, procurement and procedural bottlenecks, tardy progress in implementation of works and unsatisfactory project management. These were avoidable or could have been anticipated and a feasible profile for loan drawal obtained from the State Government or other implementing agencies.

The Ministry again stated, in November 1991, that there was no specific yardstick to determine what was unavoidable commitment charge and what was avoidable commitment charge. In respect of World Bank assistance, the disbursement profiles wherever available in the Staff Appraisal Reports were purely indicative and were rough estimates. Extension of closing date for drawal of loan could not automatically lead to the conclusion that the commitment charges paid for non-drawal of loan beyond the original closing date was an avoidable payment. The extension of closing date for drawal was agreed to by the World Bank having regard to several factors which affect the project implementation. However, the Ministry stated that all efforts would be made to ensure expeditious drawal of loan so that the need for extension of closing date was kept to the minimum.

The reply of the Ministry goes contrary to the recommendations of the Public Accounts Committee and the Estimates Committee and the Ministry's own instructions issued in June 1969, that realistic schedules for drawal of loans should be framed. The reply of the Ministry does not focus on the lack of care in agreeing with lender to closing dates for drawal of foreign loans as are in advance of the realistic time by which the loans would be required, giving due allowance to the reasons for slippages mentioned above. The coordination between the wing of the Ministry agreeing to dates for drawal of loans in the Staff Appraisal Reports and the wing exercising expenditure control, as well as, drawing up rupee budget allocations and monitoring the projects would appear to be poor. The Ministry needs to insist on compliance with its own instructions for framing proper and realistic schedules for drawing down of loans, before the schedules become part of the loan agreements. In the interest of better accountability, the Ministry needs to ascertain commitment charges payable consequent to slippage and incomplete drawing down of loans, separately from unavoidable commitment charge payments similar to service charges.

12.3.13 Short recovery of rupee payments from importers

(i) Importers holding licences for imports to be financed out of foreign loans and credits under the direct payment procedure were required to make payments to the Controller (advance deposit) of the rupee equivalent of the foreign currency, calculated at a composite rate of exchange determined in accordance with the Public Notice issued by the erstwhile Ministry of Commerce in January 1976. According to this procedure, the rupee equivalent of the amount was to be calculated as indicated in Annexure VI; the amounts were to be rounded off as per the normal principles of rounding at each stage of calculation and to the next higher digit at the final stage.

(a) In the case of French and German credits composite rate was to be arrived at by rounding off to higher integer at the second decimal place as per instruction issued by Ministry of Commerce, the Reserve Bank of India and the Controller. From June 1986 in the case of German credit, and in the case of French credits (during the years 1984-85 to 1988-89), the rate was incorrectly worked out in 55 and 18 cases respectively, in that the fractions were not rounded off normally at intermediate stages of calculation with consequential short deposits of Rs.3.16 lakhs and Rs.13.70 lakhs.

(b) In the case of World Bank credits disbursed in several currencies, the composite rate was invariably computed wrongly. Consequently in the case of a single World Bank credit alone, on the transactions in one currency (during the years 1983-84 and 1984-85), an amount of Rs.131.44 lakhs was short recovered from importers in 108 cases.

(c) The composite rate, on the same date, had been differently reckoned by different sections of the Controller's Office. The difference ranged upto Rs.0.12 per US dollar during the period April 1983 to March 1985.

(d) In case of Japanese credits the composite rate was to be rounded off to the next higher integer at the third decimal place. During the years 1984-85 to 1988-89 the composite rate was wrongly computed, as the fractions were completely ignored in the intermediate stages. Consequently in 144 cases there was short recovery of Rs.198.37 lakhs during the years 1984-85 to 1988-89 by the Controller from the impoters.

The Controller stated, in March 1991, that the composite rates had not been incorrectly worked out by reference to Public Notice of January 1976. He also stated that the body of the Public Notice did not mention anywhere that rounding off was to be done at each stage of calculation. According to the Controller the rounding off done in illustrative examples led to different procedure for calculation of composite rate in different sections. The existence of vagueness and complexity in the illustrations in the Public Notice led to the modification of the method of calculation of composite rate of exchange in the Public Notice issued in April 1989. The Controller further stated, in April 1991, that the concept of rounding off had not been incorporated in the procedure prescribed for accounting of external assistance or in any of the orders issued by the Government. The Controller also stated that the short recoveries pointed out by Audit as a result of non-rounding off at the final stage as per the body of the Notification had been noted for recovery.

The Ministry stated, in November 1991, that the absence of a specific provision in the body of the Public Notice that rounding off was to be done at every stage of calculation of composite rate of exchange led to a lack of uniformity in the calculation of composite rate of exchange in different sections of the Controller's Office. The Ministry also stated that it was difficult to visualise that the normal principle of rounding off was to be applied at every stage of calculation when the body of the Public Notice did not mention the same and that it may not be automatically assumed that the general concept of rounding off was inherent at each stage of calculation in the absence of a specific mention to that effect in the Public Notice.

The replies of the Controller and the Ministry are not correct. The Public Notice issued in 1976 and circulars of 1976 were in no way vague. The procedure was revised by the Public Notice of April 1989 not because of any ambiguity or vagueness in the Notice of 1976 in the procedure for calculation, which was comprehensively illustrated therein, but because from January 1984, the Reserve Bank of India had discontinued notification of Basket of Currency selling rate for Pound Sterling. Only the incorrect procedure followed in some of the sections in Controller's Office resulted in short recovery of Rs.346.67 lakhs from the importers in the cases test checked in audit. The Ministry needs to review all cases and recover the amounts short recovered.

(ii) Japanese credits: On loans from the Overseas Economic Cooperation Fund (OECF) of Japan, service charge at 0.01 per cent is recovered by OECF on disbursement of the loan. The charge was therefore, to be recovered from the Indian users i.e. importers or the Indian project authorities concerned.

A test check of the records revealed that in 49 cases, service charges of Y 9005607 were not claimed from the importers, while in another 79 cases service charges of Y 2800917 were shown as payable by the importers but rupee equivalent at composite rate of exchange had not been recovered from them by the Controller.

The Controller stated, in June 1990, that the rupee equivalent was recovered in such cases on the receipt of the debit advice. In respect of 79 cases the demand of Y 2800917 was made on the amount mentioned in the letter of authorisation even though no debit advice was received from the OECF, whereas in the other 49 cases charges were not demanded as no claim was made by the OECF. However, the Controller and the Ministry stated in March and November 1991 respectively that the question of recovery in 49 cases was being looked into. Their final reply is awaited (January 1992).

(iii) Soviet credits: In the credit agreements with the erstwhile USSR the date of utilisation of credits was (i) the 45th day from the date of bill of lading in case of equipment etc., and (ii) the last day of the quarter for which the claim was made in case of services etc.

The debit advices from the Bank for Economic Affairs (BFEA) formerly known as Bank of Foreign Trade USSR indicated the date of utilisation of credit, under the column "Term". This date was also indicated on the invoices attached with the debit advices. The invoice also indicated the date of bill of lading. The date of utilisation is the date on which the supplier's account is credited by the BFEA.

A test check of records revealed that the date of debit advice was wrongly adopted as the date of utilisation of credit. The adoption of incorrect dates led to the adoption of incorrect daily rate of exchange for calculation of rupees to be recovered from importer. In 144 cases, test-checked, the dates of debit advice were prior to the 45th day from the date of the bill of lading. The adoption of wrong date resulted in incorrect determination of the composite rate of exchange and short recovery of Rs.359.66 lakhs.

In another 15 cases of import of equipment, machinery and materials, the date of the debit advice was later than the 45th day from the date of the bill of lading. This led to excess recovery of Rs.72.34 lakhs from the importers.

In the above cases, interest on rupee deposits for delayed recovery was also charged short or in excess.

The Controller stated, in March and April 1991, that the cases of short recoveries and excess recoveries were under examination and a further report would follow. But, no further report has been received; (December 1991) the Ministry to whom the matter was referred in September 1991 did not offer any comments. The Ministry needs to ensure that the cases are reviewed and rectified.

(iv) Italian credits: As per the terms and conditions governing imports under Italian credits, during the period 20th December 1985 to 31st August 1988, the importers were required to deposit commission and incidental charges at the rate of 1 per cent ad valorem over and above the rupee equivalent at the composite rate of exchange.

Test check revealed that claims for commission and incidental charges amounting to Rs.17.66 lakhs and interest for delayed recoveries were not made from six importers during the aforesaid period. The Controller confirmed (March 1990) the short recovery and stated that in five out of six cases, action was being taken to recover the amount. In the sixth case necessary adjustment had been made out of the excess amounts recovered from the importer. The Controller also stated, in March 1991, that necessary note had been kept for recovery of interest.

12.3.14 Short recovery after revision of rate of interest

(i) On utilisation of external assistance by importers, for the period from the date of payment for the imports to the foreign suppliers, to the date of credit of the rupee equivalent by the importers to the Government, interest is payable to Government. The Ministry of Commerce in its Public Notice of 16th June 1976 revised the rate of interest which was earlier fixed at 6 percent per annum, to 9 percent per annum for the first 30 days and to 15 percent per annum for the period in excess of 30 days; effective on recoveries made on or after 15th June 1976. But, in August 1976, the Controller issued instructions that in respect of additional recoveries (made on or after 15th June 1976) against recoveries effected short prior to 15th June 1976, interest would be charged at the old rate of 6 percent per annum.

The instructions issued by the Controller were contrary to the Public Notice of the Ministry of Commerce. The details of cases in which interest at old rates was recovered were not furnished to Audit. In one case, the short realisation of interest by application of the old lower rate was Rs.31.39 lakhs. In reply to Audit the Controller stated, in March 1991, that the decision not to charge higher rate of interest was a conscious decision to reduce the burden on importers, where the short payments prior to June 1976 were not deliberate.

The Ministry of Finance endorsed the reply of the Controller in November 1991. But the replies have not been ratified by amendments or clarification to its public notice by the Ministry of Commerce.

(ii) In August 1983, the Ministry of Commerce further revised the rate of interest upwards with effect from 1st September 1983. For the first 30 days interest at 12 percent and for the period exceeding 30 days interest at 18 percent became applicable. The Public Notice clearly stipulated that the enhanced rates were applicable where cost of goods imported and services rendered were paid for directly out of foreign loan or grant on or after 1st September 1983.

A test check of records revealed that in two cases in which recoveries were made after 1st September 1983, interest was calculated and recovered at old rates, resulting in short payment of interest by Rs.1.43 lakhs. The Controller stated, in March 1991 that the short recovery had been noted for necessary action.

12.3.15 Release of negotiable documents to importers without effecting recovery.

Under the direct payment procedure the banks in India receiving negotiable shipping documents release them to the importers, for customs clearance, only after the rupee value has been recovered and credited into Government account. In respect of two Public Sector Undertakings the documents were, however, released by the banks even before the rupee payments were made by the importers, as detailed below:-

(Rupees in crores)

Name of the importer	Period	Amount outstanding (Principal)	Interest outstanding	Total
P	1986-89	138.17	40.00 (approx. upto October 1990)	178.17
K	1984-86	0.84	0.98 (approx. upto May 1990)	1.82

The amount of Rs.179.99 crores has remained outstanding from the two importers from 1984 onwards and has not been recovered so far (October 1991).

The Ministry stated, in November 1991, that the release of the negotiable documents had not come in the way of vigorous pursuit of the recoveries to be made. The reply is silent on accountability for non-recovery.

12.3.16 Defective monitoring of recoveries from Importers

(i) The Controller is required to maintain "Importer's ledger" importer-wise and loan and credit-wise to compute the extent of utilisation of each loan and credit and amounts recovered or recoverable from each importer.

A summary of the ledger is required to be prepared, as also a broadsheet of loans or credits utilised under direct payment procedure.

Test check revealed that the summaries of importers' ledger and the broadsheet were not prepared. Further, yearwise and upto date details of short or excess payment and non payment by importers were not drawn up regularly. There were 113 cases of short payment by importers amounting to Rs.22.56 crores and 93 cases of excess payments involving Rs.2.59 crores. In 79 cases debit advices for F.F.488.90 million had been received but no amounts whatsoever paid by the importers as per the ledger. Apparently the 'Importer's Ledger' was not systematically reviewed. The Controller stated, in August 1990, that after periodical review of files on wanting payments references were invariably issued. But, verification of records revealed that in three out of six cases, initial references had not been issued for about five years, while in the remaining cases, reminders were issued about five years after issue of initial references to importers.

The Controller stated, in March 1991, that a proper system was being formulated and a suitable mechanism would be worked out for the purpose.

(ii) On enquiry why an Importer's ledger was not maintained in respect of World Bank credits, the Controller stated, in October 1989, that the recovery of rupee payments from importers (and interest) was being watched through the "Rupee Deposit Register" maintained for all direct payments under World Bank credits. The "Rupee Deposit Register", however, merely indicated the amounts in rupees recovered from the various importers against disbursements in foreign currency but did not provide a consolidated record of the amounts (including interest) due from each importer.

In September 1986, an importer reported to the Controller that an amount of Rs.51.54 lakhs had been paid by him in excess in rupees during the period February 1982 to June 1986 against the payments made on his import, paid for in foreign currency utilising a World Bank loan. The details of rupee payments were also furnished by the importer. Since no detailed check of all the payments by the importers could have been made by the Controller, the claim was stated to have been generally scrutinised with reference to

"Rupee deposit register" and other subsidiary records and an amount of Rs.51.39 lakhs was admitted to have been received in excess from the importer (for adjustment). Test check by Audit of 40 items included in the details furnished by the importer showed that instead of an excess of Rs.9.27 lakhs claimed there was short recovery of Rs.3.3 lakhs from the importer. On this being pointed out, the Controller agreed to review all transactions relating to the claim. No further information was received from the Controller.

12.3.17 Revolving Fund

A Revolving Fund was started during 1986-87 for crediting disbursements out of World Bank loans for some selected projects, with the following objectives:-

i) to provide project authorities unhindered access to the Bank's finance;

ii) to ease problems from currency devaluation between the date of expenditure and the date of reimbursement by the Bank; and

iii) to reduce the number of applications received in the Bank for reimbursement, or letters of credit, for small amounts.

The fund was a Special Account in the Reserve Bank of India and the State Bank of India, Bombay, in US dollars. The Reserve Bank of India was agreeable to pay compensation at a rate not more than 8 per cent per annum on the outstanding balances in the Special Account. The Reserve Bank of India also agreed to revalue the outstanding balance in the Special Account on a half yearly basis at the prevailing exchange rate. Any surplus or deficit in terms of rupees, so calculated, was to be transferred to Government Account.

The first credit to the Revolving Fund was received in March 1987, but the monthly balance with Reserve Bank of India upto 1st March 1988 was not available with the Controller. The average monthly balance during the period April 1988 to March 1990 with the Reserve Bank of India in the Special Account was US dollar 531 million and with State Bank of India, Bombay, in the Special Account, was US dollar 40 million. However, the amounts were utilised by the Government towards its other foreign exchange requirements. Interest from 1st April 1988 to 31st March 1990 at the rate of 8 per cent, based on average of daily balances worked out to Rs.135 crores. But the same was not paid by RBI as it could not invest the amounts in the Special Account and earn interest. In the result the disbursements to the Revolving Fund became only advance payment of loans by World Bank to Government of India.

The Ministry stated, in November 1991, that the Reserve Bank of India purchased foreign exchange from the Government of India by affording credit to Government account in rupees, which provided budgetary support and the foreign exchange disbursed by lender formed part of the foreign exchange resources available with the Reserve Bank of India for managing the country's foreign exchange reserves. The use of foreign exchange for different purposes, including investment is decided by the Reserve Bank and the question of non-investment of initial deposit and consequent loss of revenue does not arise. The reply indicates that the revolving fund became a non-starter and became a one time support for meeting the budgetary and balance of payment deficits.

12.3.18 Disbursement without utilisation

According to an agreement entered into in November 1986 with the Government of erstwhile USSR, the latter Government extended a credit of 1500 million roubles for the Tehri Hydro Power Project comprising 1200 million roubles for design, survey, equipment, machinery etc; and 300 million roubles for meeting local costs. The local costs on the components of the project were to be met out of the repayments of Soviet credits in Indian Rupees lying with the Reserve Bank of India to the account of Bank for Economic Affairs, (BFEA). The disbursement of credit was to be based on the amounts to be utilised as agreed upon by the organisations of the two countries with reference to planned scope of work and specified annually.

The first disbursement of 7 million roubles was received in April 1988 in favour of Ministry of Energy, Department of Power, which was subsequently transferred to the account of the Controller because the project implementing authority had not been constituted. The amount was still to be utilised and the Controller had paid interest of Rs.283.11 lakhs upto July 1991 on the principal amount, at 1.5 per cent above the interest rate for 91 days Treasury Bills. At the same time, as on 31st March 1987, an amount of Rs.81.96 crores was outstanding against the Government of erstwhile USSR as technical credit given to it, which earned interest at only 4.60 per cent.

The Controller stated, in May 1990, that the amount was received in consonance with the terms of the agreement between India and USSR and was not drawn by the Controller. The Ministry also stated, in November 1991, that the money was received as per the provisions of the credit agreement as an advance disbursement. Such advance disbursements were done also by multilateral agencies like the World Bank and the Asian Development Bank. They provided budgetary support to Government of India (to reduce budget deficit).

The reply of the Ministry is partly incorrect. According to the terms and conditions of agreement between the Government of India and the Government of erstwhile USSR, the disbursement of credit was to be based on the amounts to be utilised as agreed upon by the organisations of the two countries with reference to the planned scope of works and specified annually. Quite clearly planned progress in work was not the cause for disbursement, as the project authority had not been constituted. Also no further instalments of credit were received after April 1988. The release of credit without any requirement from the project authority resulted in avoidable extra payment of interest.

12.3.19 Improvement needed in accounting

(i) Mistake in rounding off: Receipts of loans and credits are accounted in the books of the Pay and Accounts Officer at the prevailing daily rates of exchange on the date of receipt. A test check revealed that no standard procedure was adopted for calculation of daily rates for purpose of reflection in accounts of Government of India. In some instances the rate was worked out to second decimal place and in others upto the third decimal place. Further, the normal principle of rounding off upward and downward had not been adopted.

(a) French credits (1986-89): There were 269 cases in which figure in the second decimal place was rounded off to the next higher integer even though the figure at third decimal place was less than 5.

(b) Japanese credits (1984-89): In 126 cases, the figure at third decimal was not rounded off to the next higher integer even though the figure at the fourth decimal place was greater than 5.

(c) German credits (1984-89): In 13 cases the figure at the second decimal place was rounded off to the next integer even though the figure at the third decimal place was less than 5. In another six cases the procedure followed was exactly the opposite.

(d) In a World Bank credit (dollar transactions for one credit), the variation in daily rate adopted for US dollar by the World Bank section and that adopted by another section ranged from Rs.0.01 to Rs.0.42 per dollar.

The adoption of differing practices resulted in rupee equivalent of external assistance being incorrectly reflected in Government accounts. The replies received from the office of the Controller indicated the absence of clear cut instructions for calculating daily rate of exchange.

(ii) Subsidiary accounts at ex-IMF parity rates: Receipts and repayments of external loans were accounted for in rupees in Government accounts and subsidiary accounts at the daily rates of exchange. However, the value at the ex-IMF parity rate and the amount arising from the difference between the daily rate and the ex-IMF parity rate were to be also exhibited in the subsidiary accounts. On repayment of the loan, the difference between total receipts and total repayments at the fluctuating daily exchange rates were to be accounted for as receipts or expenditure under the head "gain/loss by exchange". A review of the records showed that values at ex-IMF parity rates and difference from current rates were not indicated separately in the subsidiary accounts. This prevented the reflection of reliable figures being generated by using the subsidiary accounts of the balances at ex-IMF parity rates, and other rates of exchange.

(iii) Write off to loss or gain by exchange

The ledgers of the accounts wing pertaining to IBRD loans for the year 1989-90 revealed that there was a minus balance of Rs.61,93,51,732.27 under nine loans which had been fully repaid during the years 1977 to 1984. The minus balance was apparently the result of more rupees having been paid out than credited as loan received, because of exchange rate variation. The Controller stated, in April 1991, that the adjustments in accounts by writing of the minus balance to "loss or gain by exchange" could not be carried out earlier due to non reconciliation of minus balance and not making budget provision under the head "loss or gain by exchange". The minus balances were cleared in February 1991, but without reconciliation. The Controller stated, in August 1991, that an attempt at reconciliation was made but due to incomplete information, the accounts figure available in the records of the Accounts Wing against each of the loans had been taken as final in order to adjust the minus balance. The reply illustrates the problems arising from lack of uniformity as well as failures in recording exchange rates adopted against each entry while accounting loans received and repayments made.

(iv) Deficiencies in accounting: (a) Rupee payments received from the importers were adjusted first against the principal loan amount, then against the loss or gain by exchange (difference between the composite rate and the daily rate on date of utilisation of loan/grant) and finally against interest recoverable due to delay in payment by importers. Test check of the records showed that in five transactions pertaining to French credits, in one transaction pertaining to Japanese credit and in two World Bank credit transactions, short payments of principal by the importers were not recovered but were set off against interest received from them. The Controller stated, in March 1991, that necessary corrections would be carried out.

(b) The Aid Sections maintained separate loan-wise records and subsidiary accounts of debit advices in respect of loans utilised for each transaction under direct payment procedure against which the deposits from Indian importers were due. The Pay and Accounts Officer under the Controller, independently of the Aid Sections, compiles loan-wise figures of amounts due from the importers against debit advices accounted for in Government accounts. The amounts of deposits when received are also adjusted against the amounts due from them, in the Government accounts.

(c) As on 31st March 1990, as per the Aid Sections, payments by importers amounting to Rs.507.46 crores were awaited in respect of loans utilized from 16 foreign lenders. But as per the records of Pay and Accounts Officer, it was Rs.889.92 crores in respect of loans utilised from 29 foreign lenders. In respect of 5 credits, the amount to be received as per the records of Pay and Accounts Officer was a minus figure, which was clearly incorrect and had not been rectified.

(d) The rupee amounts deposited by the importers which had not been adjusted against the amounts due from them as per the records of the Aid Sections did not agree with the amount as per the accounts of the Pay and Accounts Office. As on 31st March 1990, according to the records of the Aid Sections, an amount of Rs.290.33 crores deposited by the importers had not been adjusted against the amount due from them in respect of loans received from 9 agencies. The records of the Pay and Accounts Office, however showed that the amount which had not been adjusted was Rs.617.20 crores in respect of loans from 24 agencies.

(e) In paragraph 32 of the Report of the Comptroller and Auditor General of India for the year 1985-86 Union Government (Civil) Vol.I numerous instances of short payments in rupees by importers against foreign loans utilised, under direct payment procedure, were highlighted. In the action taken note, the Ministry stated, in August 1987, that necessary subsidiary records were now being maintained to watch and link debit advices from lender of laon utilisation with the rupee payments received from importers. However, it was observed in audit that subsidiary records were not being maintained. In March 1991, the Controller only stated that instructions were under issue reiterating the need for maintenance of the records.

(f) As per orders issued in October 1981, a report on payments not received from importers, within six months of utilisation of loan (receipt of debit advice) was to be submitted to the Reserve Bank of India by the Controller to enable RBI to take action against the defaulting authorised foreign exchange dealers and importers. This report was not being prepared and sent to the Reserve Bank of India.

The Ministry only stated, in November 1991, that action was on hand to implement the orders issued in October 1981 for sending the reports.

12.3.20 Internal check

The internal check wing in the office of Controller was to have one Junior Accounts Officer and two Junior Accountants for concurrent internal check of the subsidiary accounts kept in the Accounts Wing. The internal check was to be conducted once a year and was to be done under the direct supervision of the Deputy Controller and the overall supervision of the Controller. The internal check section was constituted in October 1978 but, orders for its revival were issued in June 1981.

Information was not forwarded to Audit of the details of the reports prepared by the internal check wing during its operation, on the ground that the records were destroyed at the time of shifting of the office. But, the Controller stated, in October 1989, that internal check was suspended due to shortage of staff and the same would be resumed as and when the staff position improved.

The Ministry stated, in November 1991, that action was being taken to restart the internal check.

12.3.21 Manual of Procedure

Since the inception of the Office of Controller and even after its taking over the compilation and accounting functions relating to external assistance, the departmental Manuals have not been prepared so far, outlining the broad principles, procedures and instructions for maintenance of necessary registers, ledgers and records and accounting and compilation and reconciliation of accounts. The Controller stated, in October 1989, that preliminary attempts had been made in the past but no definite time frame for completion of the manual could be intimated. The Controller also stated, in March 1991, that staff would be deployed on the work in the early months of

1991. The Ministry stated, in November 1991, that action was being taken to compile a manual of procedure. It is necessary that a conceptually clear manual is prepared for maintenance of accounts and their reconciliation. The manual must also clearly lay down annual time table for re-valuation of liabilities by reference to changes in rates of exchange and agreement of figures of external liabilities as per Government accounts with those shown in the Economic Survey.

Annexure I

(Ref. para 12.3.6(ii))

Table XI-9 : External Assistance

(Fiscal Years)

(Rupees crore)

Items	Loans	Grants	Total(2+3)
1.	2.	3.	4.
1. Authorisations during			
a) 1980-81	3237@	76	3313
	(4093)	(96)	(4189)
b) 1981-82	2633	207	2840
	(2936)	(231)	(3167)
c) 1982-83	2542	423	2965
	(2630)	(438)	(3068)
d) 1983-84	1687	387	2074
	(1632)	(375)	(2007)
e) 1984-85	4401	471	4872
	(3702)	(396)	(4098)
f) 1985-86	5335	313	5648
	(4360)	(256)	(4616)
g) 1986-87	5728	430	6158
	(4483)	(336)	(4819)
h) 1987-88	7994	1062	9056
	(6166)	(819)	(6985)
i) 1988-89 R	12986	214	13200
	(8967)	(148)	(9115)
j) 1989-90 P	8288	816	9104
	(4978)	(490)	(5468)
2. Utilisation during			
a) 1980-81	1228@	396	1624
	(1553)	(501)	(2054)
b) 1981-82	1519	351	1870
	(1694)	(391)	(2085)
c) 1982-83	1911	339	2250
	(1977)	(351)	(2328)
d) 1983-84	1964	281	2245
	(1899)	(272)	(2171)
e) 1984-85	1963	369	2332
	(1651)	(310)	(1961)
f) 1985-86	2495	401	2896
	(2039)	(328)	(2367)
g) 1986-87	3176	402	3578
	(2485)	(315)	(2800)

1.		2.	3.	4.
	h) 1987-88	4575	457	5032
		(3529)	(352)	(3881)
	i) 1988-89 R	4738	553	5291
		(3272)	(382)	(3654)
	j) 1989-90 P	5138	624	5762
		(3086)	(375)	(3461)
3.	Amount undisbursed as at the end of March 1990 P	45556	2551	48107
		(26295)	(1472)	(27768)

Notes: 1. Amounts of authorisations and utilisation under loans' are inclusive of Government and Non-Government loans.

2. Loan amounts are net of surrenders, de-obligations and cancellations etc.

3. Figures of utilisation of grants are exclusive of grants received from International Institutions such as UNICEF, UNDP, ILO, WHO, UNFPA and UNESCO upto 1986-87. Subsequent data are inclusive of such grants.

4. Amount undisbursed as at the end of March 1990 represents rupees values calculated at the rates prevalent at end-March 1990.

5. Figures in brackets represent amounts in million of US dollars. They are converted at annual average rates for the respective years and amount undisbursed are converted at end-March 1990 rate.

@ Excludes IMF Trust Fund.

P: Provisional.

R: Revised.

Annexure II

(Ref. para 12.3.6(ii)

Table XI-13: Aggregate External Assistance (Fiscal Years)

(Rupees crore)

	Period	Loans	Grants	P.L.480/665 Aid and Third Country Currency Assistance	Total (2+3+4)
	1.	2.	3.	4.	5.
1.	Authorisations from August 15, 1947 Upto March 1980	18,894	3,031	2,774	24,699
2.	Authorisations during:				
	a) 1980-81	3,237	76	--	3,313
		(4093)	(96)		(4189)
	b) 1981-82	2,633	207	--	2,840
		(2936)	(231)		(3167)
	c) 1982-83	2,542	423	--	2,965
		(2630)	(438)		(3068)
	d) 1983-84	1,687	387	--	2,074
		(1632)	(375)		(2007)
	e) 1984-85	4,401	471	--	4,872
		(3702)	(396)		(4098)
	f) 1985-86	5,335	313	--	5,648
		(4360)	(256)		(4616)
	g) 1986-87	5,728	430	--	6,158
		(4483)	(336)		(4819)
	h) 1987-88	7,994	1,062	--	9,056
		(6166)	(819)		(6985)
	i) 1988-89 R	12,986	214	--	13,200
		(8967)	(148)		(9115)
	j) 1989-90 P	8288	816	--	9,104
		(4978)	(490)		(5468)
3.	Total upto March 1990	73,725	7,430	2,774	83,929
4.	Utilisation from August 15, 1947 Upto March 1980	15,546	2,174	2,819	20,539
5.	Utilisation during				
	a) 1980-81	1,228	396	--	1,624
		(1553)	(501)		(2054)
	b) 1981-82	1,519	351	--	1,870
		(1694)	(391)		(2085)
	c) 1982-83	1,911	339	--	2,250
		(1977)	(351)		(2328)
	d) 1983-84	1,964	281	--	2,245
		(1899)	(272)		(2171)
	e) 1984-85	1,963	369	--	2,332
		(1651)	(310)		(1961)

1.	2.	3.	4.	5.
f) 1985-86	2,495	401	--	2,896
	(2039)	(328)		(2367)
g) 1986-87	3,176	402	--	3,578
	(2485)	(315)		(2800)
h) 1987-88	4,575	457	--	5,032
	(3529)	(352)		(3881)
i) 1988-89 R	4,738	553	--	5,291
	(3272)	(382)		(3654)
j) 1989-90 P	5,138	624	--	5,762
	(3086)	(375)		(3461)
6. Total upto March 1990	44,253	6,347	2,819	53,419

R: Revised P: Provisional

Notes: 1. Refer to notes to table XI-9.

2. Figures in brackets represent million of US Dollars.

Annexure III

(Ref. para 12.3.6 (ii)

Table XI-14: Aggregate External Assistance-Source-wise

(Upto end-March 1990) $$

(Rupees crore)

Country/Institution	Authorisation				Utilisation			
	Loans	Grants	Pl 480/665 Aid and Third Country Currency Assistance	Total (2+3+4)	Loans	Grants	Pl 480/665 Aid and Third Country Currency Assistance	Total (6+7+8)
1.	2.	3.	4.	5.	6.	7.	8.	9.
IBRD	20494	--	--	20494 (24.4)	10568	--	--	10568 (19.8)
IDA	15881	--	--	15881 (18.9)	13007	--	--	13007 (24.3)
EEC	41$	984	--	1025 (1.2)	42$	1046	--	1088 (2.0)
IFAD	201	--	--	201 (0.2)	188	--	--	188 (0.4)
ADB	1703	--	--	1703 (2.0)	233	--	--	233 (0.4)
Canada	899	1074	--	1973 (2.4)	716	610	--	1326 (2.5)
France	2087	56	--	2143 (2.6)	1769	55	--	1824 (3.4)
Netherlands	937	279	--	1216 (1.4)	949	473	--	1422 (2.7)
West Germany	4139	56	--	4195 (5.0)	3451	53	--	3504 (6.6)
Japan	4827	273	--	5100 (6.1)	3350	275	--	3625 (6.8)
Sweden	476	936	--	1412 (1.7)	196	618	--	814 (1.5)
USA	3251	497	2774	6522 (7.8)	3305	285	2819	6409 (12.0)
USSR	13990	9	--	13999 (16.7)	2243	8	--	2251 (4.2)
U.K.	1223	2756	--	3979 (4.7)	1256	2445	--	3701 (6.9)
OPEC*	1995	12	--	2007 (2.4)	1677	12	--	1689 (3.2)
Others	1581	498	--	2079 (2.5)	1303	467	--	1770 (3.3)
Total	73725	7430	2774	83929 (100.00)	44253	6347	2819	53419 (100.00)

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.

$ Relates to Special Action Credit.

$$ Provisional.

Note: Figures in brackets represent percentage to the total.

Annexure IV

(Ref. para 12.3.6(ii)

Table XI-16: Inflow of Foreign Assistance-Gross and Net

(Fiscal Years)

(Rupees crore)

Year	Gross Utilisation	Amortisation Payments	Interest Payments	Total Debt Services (3+4)	Net Inflow of Aid (2-5)
1.	2.	3.	4.	5.	6.
1980-81	1624	518	286	804	820
	(2054)	(655)	(362)	(1017)	(1037)
1981-82	1870	538	311	849	1021
	(2085)	(600)	(347)	(947)	(1138)
1982-83	2250	587	360	947	1303
	(2328)	(607)	(372)	(979)	(1349)
1983-84	2245	616	417	1033	1212
	(2171)	(596)	(403)	(999)	(1172)
1984-85	2332	647	529	1176	1156
	(1961)	(544)	(445)	(989)	(972)
1985-86	2896	776	591	1367	1529
	(2367)	(634)	(483)	(1117)	(1250)
1986-87	3578	1176	853	2029	1549
	(2800)	(920)	(668)	(1588)	(1212)
1987-88	5032	1581	1043	2624	2408
	(3881)	(1219)	(804)	(2023)	(1858)
1988-89 R	5291	1646	1301	2947	2344
	(3654)	(1137)	(898)	(2035)	(1619)
1989-90 P	5762	1987	1699	3686	2076
	(3461)	(1193)	(1021)	(2214)	(1247)

R: Revised

P: Provisional

Notes: 1. Gross aid utilisation includes debt relief provided in the form of refinancing credits and grants. Debt service payments in these cases are covered in columns (3) and (4) above.

2. Figures in brackets represent million of US dollars.

Annexure V
(Ref.para 12.3.12(iii)
Commitment charges

(Amount in US dollars)

Name of the Project	Farakka Thermal Power Project I	Second Ramagundam Thermal Power Project	Rihand Power Transmission Project	Central Power Transmission Project	Second Orissa Irrigation Project	Haryana Irrigation Second Project
	(1)	(2)	(3)	(4)	(5)	(6)
(a)Loan/Credit number	1887.IN-IBRD	2076 IN	2555 IN (IBRD)	2283 IN	1397 IN	1319 IN
(b)Original closing date	31st March 1987	30th June 1988	31st December 1989	31st March 1989	31st December 1987	31st March 1988
(c)Amount of loan (million)	25	300	250	250.7	105	150
(d)Amount utilised upto closing date (million)	nil	192.91	103.44	33.01	60.29	94.5
(Percent)	(nil)	(64)	(41)	(13)	(57)	(63)
(e)Commitment charges paid upto the closing date						
(i) As per the prescribed draw down schedule	1042708	7046676	3225352	4173018	997391	1785755
(ii)Due to slippage in draw down*	187500	4583885	2474361	6037871	532400	800425
(f)Commitment charges paid beyond the closing date	466792	758186	301753	1442470	85578	nil**
(g)Commitment charges (e+f)	1697000	12388747	6001466	11653359	1615369	2586180
(h)Total avoidable commitment charges (e.ii+f)	654292	5342071	2776114	7480341	617978	800425
(i)Avoidable commitment charges as percentage of total	38.56	43.12	46.26	64.19	38.26	30.95

* Calculated half yearly.

** Commitment charges discontinued.

Annexure VI

(Ref. para 12.3.13(i)

Procedure for calculating composite rate of exchange

(i) The rate of exchange of the foreign currency to the rupee was to be determined by reference to the London daily selling rate for the particular foreign currency (to the Pound Sterling) ruling on the date of payment to the foreign supplier (the rate is expressed as one £ equal to so many US dollars, or equal to so many French franc, etc.), and by reference to the authorised dealer's Basket of Currency (BC) selling rate of the pound sterling (which is the currency of intervention by RBI) for rupees. The authorised dealer's BC selling rate was expressed as Rs.100 = so many £, which rate of exchange was to be computed to the fourth decimal place.

(ii) A margin of one per cent on the rate of foreign currency to the rupee arrived at as in (i) above was to be calculated and rounded off at the fourth decimal place in the usual manner i.e. upward or downwards. The one per cent margin was to be added to the rate and the total rounded off at the second decimal place to the next higher integer in respect of all currencies except the Japanese Yen and Italian Lira for which rounding off was to be done at the third decimal place. This total rounded off to the second (or the third decimal place) was the composite rate.

The method of computation of the composite rate of exchange was illustrated in the Public Notice issued by Ministry of Commerce in January 1976, and in the instructions circulated by the Exchange Control Department of the Reserve Bank of India in January and February 1976. In the illustrative examples contained in these circulars, the figures were rounded off at each stage of calculation as per the normal principles of rounding off, except at the last stage when it was to be rounded off to the next higher integer. The instructions issued by the Controller in April 1976 followed the procedure of RBI.

12.4 Loss of interest to Government by default of its agents

In terms of the Reserve Bank of India Act, 1934, the Reserve Bank of India as the statutory agent for the Central Government is entrusted with the responsibility of management of public debt and issue of new loans of the Central Government. Collections of loans moneys are made on the dates of loan issue by the branches of the Reserve Bank of India and the State Bank of India and its subsidiaries, as have been authorised by the Reserve Bank of India to act as "Agent Banks" for the purpose. According to the guidelines issued by the Reserve Bank of India, the collecting banks should send daily advices of collections to the nominated branch of the Reserve Bank of India by telex or telegram. Cheques tendered for collections are to be treated as cash and outstation cheques are also included in the final telegram on collections to be sent on the day notified for closure of the subscriptions to the loan.

The Agent Banks are required to transfer the money collected to the State Bank of India, Nagpur Branch (Calcutta upto April 1989) by express telegrams. The Nagpur Branch of the State Bank of India is required to consolidate the amounts and remit them, with the least possible delay, for credit to Central Government account in the Reserve Bank of India, Central Accounts Section, Nagpur, by means of cheques, on a day to day basis. A daily advice of collections credited to Government account is furnished by the Central Accounts Section of Reserve Bank of India, Nagpur to the Chief Controller of Accounts, Ministry of Finance, Department of Economic Affairs.

Audit of the Public Debt Office of the Reserve Bank of India, New Delhi revealed that on several occasions, delays upto 148 days had taken place in crediting moneys to the Government account, after the closure of the subscription to the loans. The details of delays, in excess of seven days, as seen from the records of the Chief Controller of Accounts, in respect of loans floated during the years 1985-86 to 1990-91 are given below:-

(Rupees in lakhs)

Extent of delay beyond seven days	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
1 to 5 days	2999.64	9408.10	495.67	20351.38	1074.65	786.19
6 to 10 days	1626.00	150.43	478.86	282.10	754.85	29.00
11 to 30 days	1941.00	447.59	5795.18	424.05	378.92	47.90
31 to 60 days	284.60	21.35	3.87	472.50	4.50	7.00
61 to 99 days	2.85	1.33	-	-	0.40	-
100 days and above	8.75	-	1.00	10.57	-	-
Total	6862.84	10028.80	6774.58	21540.60	2213.32	870.09

Moneys collected against large value loans floated by the Government were not credited to Government account for long periods and Government had to pay interest on such moneys even for the periods they had not entered Government account. The avoidable interest liability after allowing for delays upto 7 days, amounted to Rs.103.26 lakhs.

The Ministry stated, in October 1991, that while there had been delays in crediting the subscription amounts to Government Account beyond 7 days, the percentage or such amounts in relation to the total credits was small. The Ministry also stated that the Reserve Bank had once again advised all receiving offices to further reduce the gap between receipt of subscriptions and their credit to Government account.

12.5 Non-commissioning of furnace

Based on indents received from the Government Mints at Hyderabad and Calcutta in January 1986 and July 1987 respectively, the Supply Wing of the High Commission of India, London concluded a contract with a foreign firm in October 1987 for supply of two furnaces at a cost of Rs.118.70 lakhs in foreign exchange exclusive of agency commission of Rs.2.42 lakhs payable in rupees. In addition, the cost of erection and commissioning was fixed at Rs.7.13 lakhs.

The furnaces were shipped by the firm in May 1988. The furnace for the Mint at Hyderabad was commissioned in September 1989. The furnace for the Mint at Calcutta was not commissioned till September 1991 because preparatory work for erection and commissioning was not done in time though the furnace reached Calcutta Port in July 1988 and the premises of the Mint in November 1988. The warranty period on the furnace had expired in July 1989.

Thus, lack of adequate planning resulted in furnace costing Rs.65.51 lakhs in foreign exchange lying idle with expiry of warranty for over 3 years.

The Ministry stated (September 1991) that arrangements for commissioning of the furnace were being pursued. The Government Mint at Calcutta stated (September 1991) that completion of the related construction work was not done in time by the Central Public Works Department.

12.6 Avoidable Extra Expenditure in Government Mint

A Mint of Government of India contracted out the work of conversion of 100 tonnes of cuper-nickel scrap into rolled strips to a firm in September 1986 at a cost of Rs. 0.24 lakh per metric tonne after evaluation of tenders received from 4 firms. A melting loss of 3 per cent was allowed. 50 percent virgin metal was to be supplied by Mint in case the scrap offered for conversion consisted of cuper-nickel skulls of 200 kilogram weight. But only 20 percent virgin metal was to be supplied if scrap consisted of seissel and cuper-nickel off-cuts.

In May 1987, the firm conducted pre-melting trial of the scrap supplied in the presence of a representative from the Mint. The trials disclosed that using scrap materials supplied, containing 12 percent skulls, 38 per cent scrap and 50 per cent virgin metal, the melting loss was 5.1 percent, on the average and the firm asked for 5.1 percent melting loss to be allowed. The Mint agreed in May 1987. But post contractual acceptance of a higher rate of melting loss vitiated the process evaluation of tender, since the other three competing firms had also quoted on the basis of allowance of only 3 percent melting loss. The post contractual modification resulted in avoidable extra payment of Rs. 3.47 lakhs to the firm.

The Mint stated, in September 1991, that the firm apprehended higher melting loss due to materials being found highly contaminated and filled with impurities. The Mint, after witnessing melting trial through its technical representative agreed to the increase of melting loss. It further stated that the second lowest tenderer, if approached, would have also asked for increase in melting loss. The Ministry endorsed the replies of the Mint in September 1991. The reply of the Ministry is a conjecture and indicates the need to improve specifications of the raw material going into notice inviting tender and the need to avoid extra post contractual payments.

Department of Revenue

12.7 Alkaloid Plant

In 1983 and 1984, Government approved modernisation of two of its Alkaloid plants at Neemuch and Ghazipur at a cost of Rs.230 lakhs. The rate of production of Codeine from morphine was expected to go up from 80 per cent to international standard of 95 per cent on potential to potential basis. The National Chemical Laboratory (NCL), Pune had developed the original process for the plant at Neemuch, and they were appointed as consultants for the modernisation. The consultancy agreement inter alia included rendering of technical advice and assistance relating to providing complete specifications of equipment, their identification and selection for agreement indigenously and from abroad. Likewise, the National Industrial Development Corporation, New Delhi (NIDC) which was associated in the setting up of the Neemuch plant was appointed as Engineering Consultant.

Neemuch Plant : The modernisation at Neemuch Plant was sanctioned in 1984 and was to be completed within two years. In the original scheme, completion of the activities in different stages was not provided. However, according to the Ministry (November 1990), later in July 1985, stage I and II activities were planned to commission the imported equipments. The modernisation had not been completed till the end of March 1991 after spending a sum of Rs. 98.41 lakhs.

In stage I of modernisation centrifugal decanter (CFD) and centrifugal clarifier (CFC) imported at a cost of Rs. 11.60 lakhs were to be commissioned but were found to be unsuitable for the opium broth. Two sets of pulse extraction column imported at a cost of Rs. 17.77 lakhs would not work without separate metering pumps, which were thereafter (September 1989) ordered indigenously. The pumps (costing Rs.1.56 lakhs) were received and were under trial (April 1991). Due to non-completion of stage I of modernisation, the balance equipment and machinery procured between April 1985 and April 1987 at a cost of Rs. 33.89 lakhs (imported : Rs.22.66 lakhs and indigenous : Rs.11.23 lakhs) could not be used and were lying idle (April 1991). The guarantee on imported equipment had also expired.

The agreement with NIDC was not made available to Audit. Rs. 15.49 lakhs was paid to the consultants (NCL:Rs.9.70 lakhs, NIDC: Rs.5.79 lakhs) upto April 1991. No Project Report on modernisation of the Alkaloid Plant was submitted by NCL. In November 1989 the senior officers of the Plant were of the view that the NCL had been revising its stand and parameters on the process and recovery .

During stage I of modernisation, the Alkaloid plant had to be closed from January to July 1986 resulting in payment of idle wages and production loss amounting to Rs.98.56 lakhs.

The office of Government Opium and Alkaloid Factories, New Delhi informed (April 1991) Audit that after successful trial runs, the modernised methylation process for conversion of morphine into systhetic codeine was run from January 1986. The rate of recovery achieved under the process was 76 per cent, 77 per cent and 74 per cent respectively during the years 1986-87, 1987-88 and 1988-89 on weight to weight basis.

On potential to potential basis the percentage rate of recovery was as given below as against projects target of 95 per cent:

Year	Before Modernisation
1983-84	61
1984-85	48
1985-86	74*
	After modernisation
1986-87	86
1987-88	88
1988-89	84

* The increase was partly due to modernisation.

The targetted rate of recovery of 95 per cent on potential to potential basis was not achieved by the modernisation. The department did not give reasons for the shortfall in achieving the targetted rate of recovery though it was the main objective of taking up the modernisation project costing Rs.98.91 lakhs in Neemuch Plant and involving loss of Rs. 98.56 lakhs in production and idle wages.

Ghazipur Plant: In the Ghazipur plant equipment costing Rs.62.41 lakhs was imported along with the equipment imported for the Neemuch plant between February and December 1985, with a warranty period of 18 months. Indigenous equipments costing Rs.3.87 lakhs were procured during the same period and Rs.5.53 lakhs was paid as consultancy fees and for travel expenses to NCL between March 1984 and January 1987. A sum of Rs.0.33 lakh was spent on site survey and soil testing in 1985. Though expenditure of Rs. 89.27 lakhs has been incurred the equipment has not been commissioned, so far (August 1991). The warranty on the imported equipment has expired. The NIDC was paid an advance of Rs. 17.13 lakhs between September 1985 to November 1986 as fee for Project engineering and installation the agreement with NIDC was not made available to Audit.

The General Manager, at Ghazipur stated (August 1991) that installation and operation of the equipment would be undertaken after successful trial at the modernised Plant at Neemuch. The reply did not indiacte why the civil work for the building had not started.

The findings were reported to the Ministry in July 1989; reply has not been received (October 1991).

12.8 Dysfunctional repair and disposal procedures

The motor launch of a collectorate of Customs was drydocked by a firm in November 1981 and dismantled. It was inspected by surveyor of the Mercantile Marine Department (MMD) in February 1982.

Estimates for repair were referred (June 1982) to the MMD who expressed their inability to certify the reasonableness of the cost of repairs (Rs. 12.84 lakhs) but offered (July 1982) to certify the necessity and quality of the repairs. The Joint Director (Marine) in Bombay after inspecting the launch stated that the proposed repairs were not economical and that the vessel was fit for condemnation. With the approval of the Ministry the launch was put to auction five times between January 1986 and July 1986. The highest bid of Rs.0.22 lakh offered in July 1986 could not be accepted because a receiver had been appointed by a court, in the meanwhile, to take charge of the entire dockyard of the firm including the motor launch.

The firm submitted claims for Rs.3.47 lakhs towards dock hire charges at the rate of Rs. 250 per day for the period from November 14, 1981 to

September 1985 and Rs.3.16 lakhs was paid in three instalments between March 1984 and January 1986. The launch continues to remain in the dockyard of the firm attracting liability for further hire charges.

Failure to take timely decision on repair or disposal resulted in avoidable expenditure of Rs. 3.16 lakhs and loss of the disposal value of the launch.

The Ministry attributed (February 1992) the delay in taking the decision to absence of infrastructure with the collectorate, dependence on outside agencies for advice on technical problems and observance of prescribed procedures.

CHAPTER XIII

Ministries of Food and Civil Supplies and Food Processing Industries

13.1 Follow up on Accounts

The capital and revenue expenditure incurred in 1990-91 from out of the grants of the Ministries (Grants Nos. 37 to 39) amounted to Rs.137.18 crores and Rs.2636.81 crores respectively. After adjusting the recoveries the amounts brought to account in Finance Accounts were Rs.40.60 crores and Rs.2631.10 crores respectively.

The progressive capital outlay, as at 31st March 1991, on Food, Civil Supplies and Food Processing Services is given below under respective capital major heads of account. The outlay should generate revenues and returns to Government. The revenue expenditure and revenue receipts in 1990-91 under the corresponding revenue heads of account are given alongside. The component of outlay invested in identifiable organisations or undertakings (whether declared commercial or not), Public Sector Undertakings and Cooperatives are given below within brackets. N.A. indicates information has not been made available in the accounts, though required to be given in some cases. The Chief Accounting Authority of the Ministries would need to take follow up action for getting wanting information in accounts and improving returns from capital outlays and investments. They may also need to drop from the progressive capital outlay the expenditures which are not correlatable to any assets in the register of assets, physical or financial and cannot also be truly entered in the register of assets so as to rectify omissions. Action has also to be taken to declare activities identifiable as "Departmental Undertakings" and those which should make profits as "Departmental Commercial Undertakings". All Public Sector and other Undertakings, cooperatives and

Departmental Commercial and non-commercial Undertakings need to be listed in Statement No.11 of the Finance Accounts indicating the capital invested in them and the return realised from them.

(Rupees in crores)

Sl. No.	Major Head	Progressive Capital Outlay as at the end of			Revenue Expenditure 1990-91	Revenue Receipts 1990-91
		1990-91	1989-90	1988-89		
1.	2.	3.	4.	5.	6.	7.
1.	4408-Capital Outlay on Food storage and Warehousing	889.04	858.76	834.73	2610.79 (Head 2408)	6.32 (Head 0408)
	(4408-01-190) Investment in Public sector and other undertakings Food)	(2.74)	(Nil)	(Nil)	--	(NA)
	4408-01-101 Procurement and supply-Food	(6410.59)	(6407.06)	(6407.38)	--	
	(4408-02-190 Investment in Public sector and other undertakings-Storage and warehousing)	(150.38)	(127.06)	(103.31)		(NA)
	(4408-02-191 Warehousing and Marketing cooperatives)	(16.68)	(16.69)	(16.67)	--	(NA)
2.	5475-102 Capital outlay on other General Economic Services-Civil Supplies.	29.83	27.54	26.33	15.28 (Head 3456)	0.12 (Head 1456)
	(Hindustan Vegetable Oil corporation)	(7.69)	(7.69)	(7.69)		(0.77) (for 89-90)
	(Bihar Fruit and Vegetable Development Cooperation)	(0.49)	(0.49)	(0.49)		(Nil)
	(Modern Food Industries Ltd.)	(6.99)	(6.04)	(4.76)		(Loss 2.57 crores in 90-91)
	(Central Warehousing Corporation)	(37.42)	(37.42)	(37.42)		(Nil)
	(Food Corporation of India)	(908.52)	(885.19)	(861.45)		(Nil)

The loans and advances given and outstanding as at 31st March 1991, for Food etc services are also given below, as indicated in statement no.15 of the Finance Accounts. The components of loan given to identifiable organisation or undertaking are given below within brackets. NA indicates that information has not been made available in the accounts though required to be given. The interest recovered will need to be given in the statement against, loans under each minor head separately, in future, in addition to the interest on loans under the major head. Against some of the loans very little or no recovery has been made in the last three years and interest recovered is also relatively meagre. In statement no.3 of Finance Accounts. Ministry/Departmentwise and loaneewise, some of the outstanding loans and interest are indicated; but information is not complete. Also the amounts of loans outstanding and amounts of instalments overdue for recovery, both need to be given in the statement, in future. The Chief Accounting Authority in the department will need to take follow up action for getting wanting information and effect recovery of instalments and interest overdue. A certificate will need to be given in the Finance Accounts in future that except for the loaneewise details given in statement no.3 all the Chief Accounting Authorities have confirmed that instalments and interest due for recovery upto 31st March of the year to which the Finance Account relates, have been recovered.

Sl. No.	Head of Account	Amount of loan outstanding as on 31.3.91	Loan recoveries			Interest recovered		
			90-91	89-90	88-89	90-91	89-90	88-89
1	2	3	4	5	6	7	8	9
1.	6408-Loans for Food, Storage and Warehousing	1411.13	Nil	5.31	0.16	Nil	Nil	55978.37
	(6408-01-101 Procurement and supply)	(1199.98)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)
	(6408-01-195 Processing Cooperative Societies)	(90.18)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)	(Nil)

1	2	3	4	5	6	7	8	9
	(6408-02-190 Loans to Public Sector and other undertakings)	(1.49)	(Nil)	(Nil)	(0.14)	(Nil)	(Nil)	(Nil)
	(6408-02-195-Loans to Cooperatives)	(118.79)	(Nil)	(Nil)	(0.01)	(Nil)	(Nil)	(Nil)
2.	7475 Loans for other General Economic Services	5.37	2.77	2.49	1.91	2.69	2.78	Nil
	(7475-195 Consumer Cooperatives)	(0.01)	(Nil)	(Nil)	(Nil)	(Nil)	(NA)	

13.2. Adjustments to be made in Finance Accounts

In the balances at the end of 1990-91 which are reflected in the Finance Accounts the adjustment or review of the balances under the following heads of account need to be made by the Chief Accounting Authority in the Ministry/Department as indicated in the remarks column.

(Rupees in thousands)

Heads of Account	Balance as at the end of				Remarks
	1990-91	1989-90	1988-89	1987-88	
6408-Loans for Food storage and Warehousing 02-storage and warehousing 800-Other loans.	(-)45	(-)45	(-)45	(-)45	There cannot be a minus balance in this head. If no details are available for writing back the excess recovery and there is no claim for it, the excess credit received in repayment of loans needs to be transferred to revenue.
8235-General and Other Reserve Fund 110-Food grains Reserve Fund	14 (cr.)	14 (cr.)	14 (cr.)	14 (cr.)	The reasons for non-operation of the fund for years and advisability of lapsing the balance to revenue requires consideration.

13.3 Avoidable extra expenditure on Import of Sugar

In view of the decline in sugar production in the country from April 1989 Government approved import of two lakh tonnes of sugar in August 1989 and an additional quantity of one lakh tonnes, in two instalments in September and October 1989.

The State Trading Corporation (STC) expressed its inability to make the import within the months specified.

The Department floated an inquiry on 23rd August 1989 which proved infructuous because the telex machine which was to receive the offers was out of order during the crucial hour by which the offers were to be received.

A second tender inquiry was floated on 29th August 1989 inviting quotations from the parties which were registered with STC as well as unregistered parties, stipulating delivery by 10th October 1989. The rates offered by registered parties ranged between US $ 504 and 515 per tonne whereas those offered by unregistered parties ranged between US $445 and 480 per tonne. Since the unregistered parties did not indicate that they would supply sugar by the scheduled date and that the bid bond as required under the terms of tender inquiry would be furnished, their tenders were ignored.

Though a committee recommended placement of orders for the import of 2.02 lakh tonnes of sugar on seven registered tenderers, the Department, however decided on 31st August 1989 that since the difference in rates between the tenders from registered and unregistered suppliers was substantial, the latter should be called for negotiations. During negotiations, the unregistered suppliers were asked to furnish bid bond at 3 per cent of the value of their offer, but they did not agree. In the meanwhile, offers of the registered suppliers valid till 31st August 1989 expired and thus the second tender inquiry also did not prove fruitful.

Offers were again invited by 19th September 1989 (third enquiry) for delivery of sugar by 20th October 1989. The delivery period which in the second inquiry was 42 days, was narrowed down to 30 days in the third inquiry. The offers received from seven registered suppliers ranged between US$ 517.80 and 526 per tonne (as against US $504 and 515 in the earlier bid). The offers of unregistered parties ranged between US$ 454.50 and 527 per tonne but they were ignored as they did not submit bid bonds. The department approved (on 19th September 1989) the purchase of only 1.55 lakh tonnes of sugar at rates ranging between US$517.80 and 520.80 per tonne from four parties with an option to purchase another 50,000 tonnes if the prices fall. The quantity was reduced because the Department felt that the price could fall. Ministry of Finance, however, considered the import of 1.84 lakhs tonnes of sugar to be necessary to meet the requirement in November and December 1989. Orders were placed (September 1989 for import of 2.18 lakh tonnes on six registered parties at rate ranging between US$ 517.80 and 520 per tonne.

In response to a fourth enquiry, (October 1989), 7 offers were received from registered parties and 11 offers from unregistered parties. Offers from unregistered parties were ignored either because they had not submitted bid bonds or had not confirmed delivery of shipments in India by 20th October 1989. Only three registered parties had offered supplies by 20th October 1989, and they had quoted rates between US$ 519 and 520 per tonne. Orders for delivery of further quantity of 24,000 tonnes was placed on 6th October 1989 at the rate of US $ 519 per tonne for delivery by 20th October 1989.

The average rates for which the orders were placed against third and fourth enquiry was higher by US$ 11.74 per tonne over the average rates received in the second tender inquiry and avoidable extra expenditure of Rs.3.85 crores was thereby incurred on the import of 2.02 lakhs tonnes of sugar.

The contracts did not specify the rate of discount to be charged on delayed supplies. 8 vessels arrived later than the scheduled date of delivery.

Department claimed discount totalling US$ 8.05 lakhs from four suppliers. Force majeure was invoked by suppliers on supplies received in 6 vessels. The Food Corporation of India had encashed the performance bank guarantee of four parties from whom discount for delayed supplies was recoverable but three parties had gone for arbitration before the Refined Sugar Association as per provision in the contract.

In the result the department incurred avoidable additional expenditure of Rs. 3.85 crores on supplies which did not arrive by August or September, October 1989 as was considered essential.

The Department stated (October 1991) that they made sincere efforts to import sugar at a lesser price and conserve scarce foreign exchange resources by opening dialogue with unregistered suppliers who had quoted substantially lesser prices. But tender inquiry requiring unregistered suppliers to give bid bonds which they did not give, by opening dialogue with them resulted only in the lapse of offers of registered suppliers and avoidable additional expenditure by inviting fresh bids.

CHAPTER XIV

Losses

14. Losses and irrecoverable dues written off.

A statement on losses and irrecoverable revenues amounting to Rs. 3.87 crores written off during 1990-91 is given in Appendix XIV. The bulk of the amount, for Rs. 3.84 crores, represents losses in the departmental Opium and Alkaloid factories under the Ministry of Finance for reasons other than fraud or neglect or failure of system.

Dharam Vir

New Delhi
The 0 9 APR 1992

(DHARAM VIR)
Director General of Audit
Central Revenues-I

Countersigned

New Delhi
The 10 APR 1992

(C.G. SOMIAH)
Comptroller and Auditor General of India

APPENDIX - I

(Refers to paragraph 1.8)

Summarised financial results of departmentally managed Government Undertakings as on 31.3.1991

(Rupees in lakhs)

Sl. No.	Name of the Undertaking	Period of Accounts	Government Capital	Block Assets (Net)	Deprecia-tion to date	Profit(+) Loss(-)	Interest on Gove-rnment capital	Total return	Percentage of total return to mean capital	Remarks
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
	Ministry of Agriculture									
1.	Delhi Milk Scheme	1984-85	1224.19	451.41	727.16	(-)973.76	102.52	(-)869.24	--	
2.	Ice-cum-Freezing Plant, Cochin	1987-88	41.17	40.67	33.30	(-)20.90	--	(-)20.90	--	
	Ministry of Defence									
3.	Canteen Stores Department	1988-89	48.00	315.69	366.05	(+)2701.73	807.51	3509.24	35.09	
	Ministry of Energy									
4.	Electricity Department, Andaman	1988-89	2403.74	2121.65	282.09	(-)762.32	168.36	(-)593.96	--	
5.	Electricity Department, Lakshadweep	1982-83	185.80	110.57	36.76	(-)64.04	8.11	(-)55.93	--	
	Ministry of Environment and Forest									
6.	Forest Department, Andaman and Nicobar Islands	1982-83	196.75	196.75	50.91	(+)296.36	51.38	(+)1067.29	138.34	
	Ministry of Finance									
7.	**India Security Press, Nasik Road**	**1989-90**	**4374.16**	**3530.83**	**837.25**	**(-)868.67**	**863.56**	**(-)5.11**	**0.58**	**Figures based on Profit/Loss after adjustment.**

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
8.	Security Printing Press Hyderabad	1990-91	1258.20	970.12	193.87	(+)222.82	145.31	368.13	(+)129.26	Provisional figures.
9.	Currency Note Press, Nasik Road	1989-90	6180.48	5528.65	871.87	(+)2207.24	1181.71	3388.95	28.10	Figures based on Profit/Loss after adjustment.
10.	Government Opium Factory, Ghazipur	1985-86	114.19	25.35	20.63	(+)80.54	305.45	385.99	10.11	Block asets exclude capital work in progress of Rs.68.22 lakhs.
11.	Government Opium Factory, Neemuch	1988-89	204.09	188.67	16.66	(-)18.04	320.11	302.07	8.80	
12.	Government Alkaloid Works, Neemuch	1988-89	436.76	309.44	110.93	(+)59.22	66.85	126.07	19.71	
13.	Government Alkaloid Works, Ghazipur	1985-86	114.89	12.47	14.76	(-)172.86	29.13	(-)143.73	--	Block assets exclude capital work in progress of Rs.84.93 lakhs.
14.	India Government Mint, Bombay	1983-84	29.89	516.46	25.22	(+)1561.18	193.32	(+)1754.50	63.98	
15.	India Government Mint, Calcutta	1987-88	320.35	221.80	264.88	(+)975.06	346.51	1321.57	--	
16.	India Government Mint, Hyderabad	1989-90	3699.00	928.50	209.21	(-)413.40	317.91	(-)95.49	(-)2.58	Figures based on uncertified accounts.
17.	Assay Department, Bombay	1980-81	13.00	12.76	0.32	(+)8.04	0.43	(+)8.47	119.85	
18.	Assay Department, Calcutta	1988-89	0.83	0.34	0.13	(+)2.61	--	2.61	--	
19.	Silver Refinery, Calcutta	1987-88	58.84	10.76	102.54	(+)1214.70	160.29	1374.99	--	
20.	Bank Note Press, Dewas	1988-89	5330.65	4004.41	1326.24	(+)400.57	1020.55	1421.12	26.88	
21.	Security Paper Mill, Hoshangabad	1981-82	3171.16	2318.31	852.85	(-)152.39	198.80	46.50	1.47	

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
	Ministry of Health and Family Welfare									
22.	Central Research Institute, Kasauli	1989-90	2.93	0.15	0.21	(+)0.04	0.22	1.37	48.62	1. Sundry debtors for Rs.230.30 lakhs were outstanding against Government Departments/Bodies and Rs.10.41 lakhs against private Bodies. 2. Confirmation of balances outstanding since 74-75 from debtors was not obtained and as such the irrecoverable amount was not worked out and written off. 3. Interest on capital has been provided on provisional basis.
23.	Medical Stores Depots	1977-78	64.54	45.40	28.12	(+)43.45	$93.87	(+)137.32	8.05	($) This represents interest on Government Capital, accounted for in the consolidated Profit and Loss Accounts of Medical Store Depots, Profit and Loss Account of Factories attached to the Medical Store Depots and Workshop Accounts.
24.	Vegetable Garden of the Central Institute of Psychiatry Kanke, Ranchi	1989-90	0.31	0.26	--	0.13	0.11	0.69	21.8	
	Ministry of Information and Broadcasting									
25.	All India Radio	1982-83	8325.15	5227.06	3098.09	(-)3121.89	409.64	(-)2712.25	--	Figures based on unaudited accounts

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
26.	Radio Publication, All India Radio	1985-86	639.64**	0.44	0.11	(-)48.58	0.09	(-)48.49	--	**Figures based on Government current account as on 31.3.86.
				Revenue Assets						
				0.44	0.11					
27.	Director General Doordarshan, New Delhi	1976-77	2545.61	2026.43	519.18	(-)575.45	117.88	(-)457.57		
28.	Commercial Sales Service Doordarshan, New Delhi	1976-77	--	0.14	--	(+)57.62	--	(+)57.62		
				Revenue Assets						
29.	Films Division, Bombay	1983-84	416.16	245.14	246.80	(-)83.20	47.61	(-)35.59	--	(i) Due to change in accounting method from 1983-84 net loss has been arrived at after taking into account revenue in respect of supply of prints made to Directorate of Field Publicity and National revenue (Rs.19.81 lakhs for free supply of prints to State Governments. (ii) Net loss calculated after excluding adjustments relating to previous years. (iii) Compilation of proforma accounts for 1984-85 is in arrears.
30.	Commercial Broadcasting Service All India Radio	1982-83	167.21	86.17	81.04	(+)1074.70	--	(+)1074.70	--	

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
	Ministry of Surface Transport									
31.	Lighthouses and Lightships Department	1988-89	3831.69	3447.84	1052.77	(+)717.48	537.00	1254.48	46.37	
32.	Shipping Department, Andaman and Nicobar islands	1972-73	43.58	56.80	7.89	(-)80.15	4.47	(-)75.68	--	
33.	Ferry Service, Andaman	1983-84	195.85	99.70	96.15	(-)83.80	11.55	(-)72.25	--	
34.	Marine Department (Dock-Yard) Andaman and Nicobar Islands	1983-84	6.11	3.78	2.33	(-)45.41	16.65	(-)28.76		
35.	Chandigarh Transport Under-taking, Chandigarh	1988-89	1321.81	708.18	119.65	(-)406.77	111.00	(-)295.77	--	
36.	State Transport Service, Andaman and Nicobar islands	1977-78	35.87	16.05	50.05	(-)21.03	1.64	(-)19.39	--	
	Ministry of Urban Development									
37.	Department of Publications	1980-81**	** A new pricing policy is being formulated and till the final decision is taken the question of simplification of Proforma Accounts, Profit and Loss Accounts, Balance Sheet etc. has been kept in abeyance by the Ministry.							
38.	Government of India Presses	1980-81 (a)	---- do ----							

(a) Proforma accounts have not been prepared according to the revised procedure prescribed in the Ministry of Finance Office Memorandum No. F.1(35)/B/71 dated 23.01.1974.

APPENDIX II
(Refers to paragraph 2.4)

Cases of unnecessary supplementary grants/appropriations.

Sl. No.	Grant/Appropriation	Amount of Grant/Appropriation			
		Original	Supple-mentary	Actual expend-iture	Saving
1.	2.	3.	4.	5.	6.
Revenue-Voted			(Rupees in lakhs)		
	Ministry of Environment and Forests				
1.	22-Ministry of Environment and Forests	266,75	5,00	234,80	36,95
	Ministry of Finance				
2.	24-Department of Economic Affairs	425,18	92,39	411,87	105,70
	Ministry of Home Affairs				
3.	45-Other Expenditure of the Ministry of Home Affairs	334,44	43,83	280,03	98,24
Capital - Voted					
	Ministry of Health and Family Welfare				
4.	40-Department of Health	167,10	1,70	155,09	13,71
	Ministry of Surface Transport				
5.	72-Ports, Lighthouses and Shipping	221,27	31,45	215,70	37,02
	Ministry of Tourism				
6.	74-Ministry of Tourism	20,92	2,00	20,74	2,18
	Ministry of Urban Development				
7.	75-Urban Development and Housing	139,28	2,15	125,06	16,37

1.	2.	3.	4.	5.	6.
	Ministry of Home Affairs (Union Territories without legislature)				
8.	90-Delhi	686,06	45,41	635,79	95,68
Revenue-Charged					
	Ministry of Home Affairs				
9.	44-Police	0,32	0,05	0,08	0,29
	(Union Territories without Legislature)				
10.	90-Delhi	5,04	0,32	4,59	0,77
Capital-Charged					
	Ministry of Agriculture				
11.	5-Department of Fertilizers	1,00	4,00	..	5,00
	Ministry of Defence				
12.	12-Ministry of Defence	10,00	2,00	7,50	4,50
	Ministry of Home Affairs				
13.	45-Other Expenditure of Ministry of Home Affairs	7,61	1,19	7,26	1,54
	Ministry of Information and Broadcasting				
14.	55-Broadcasting Services	0,10	0,06	0,04	0,12

APPENDIX III

(Refers to paragraph 2.4)
Savings under Voted Grants

Voted grants where the savings (more than Rs.5 lakhs in each case) exceeded 20 per cent of the total grant are given below:

Sl. No.	Grant	Total grant	Expendi- ture	Saving	Percent- age of saving
1.	2.	3.	4.	5.	6.
		(Rupees in lakhs)			
	Revenue				
1.	2-Other Services of the Department of Agriculture and Cooperation	384,94	258,15	126,79	32.9
2.	23-Ministry of External Affairs	837,21	607,10	230,11	27.5
3.	24-Department of Economic Affairs	517,57	411,87	105,70	20.4
4.	32-Department of Expenditure	107,08	6,17	100,91	94.2
5.	38-Department of Civil Supplies	8,58	5,98	2,60	30.3
6.	39-Ministry of Food Processing Industries	22,80	12,06	10,74	47.1
7.	43-Cabinet	13,42	9,80	3,62	27
8.	45-Other expenditure of Ministry of Home Affairs	378,27	280,03	98,24	26
9.	48-Department of Youth Affairs and Sports	105,08	77,43	27,65	26.3
10.	53-Department of Public Enterprises	50,51	35,30	15,21	30.1
11.	56-Ministry of Labour	367,99	278,73	89,26	24.3

1.	2.	3.	4.	5.	6.
12.	61-Department of Chemicals and Petrochemicals	13,92	10,51	3,41	24.5
13.	62-Ministry of Planning	50,68	40,42	10,26	20.2
14.	64-Ministry of Programme Implementation	0,85	0,64	0,21	24.7
15.	68-Department of Steel	26,96	17,80	9,16	34
16.	70-Ministry of Surface Transport	35,68	21,22	14,46	40.5
17.	73-Ministry of Textiles	705,61	548,99	156,62	22.2
18.	92-Dadra and Nagar Haveli	30,86	24,49	6,37	20.6
	Capital				
19.	1-Agriculture	12,44	3,33	9,11	73.2
20.	4-Department of Rural Development	0,30	..	0,30	100
21.	6-Ministry of Civil Aviation	5,01	3,38	1,63	32.5
22.	12-Ministry of Defence	156,54	84,21	72,33	46.2
23.	21-Department of Non-Conventional Energy Sources	5,85	1,43	4,42	75.6
24.	23-Ministry of External Affairs	95,30	74,67	20,63	21.6
25.	24-Department of Economic Affairs	240,15	15,46	224,69	93.6
26.	25-Currency, Coinage and and Stamps	209,01	99,68	109,33	52.3
27.	32-Department of Expenditure	2,26	0,27	1,99	88
28.	34-Department of Revenue	1,60	0,11	1,49	93.1
29.	35-Direct Taxes	120,00	71,44	48,56	40.5
30.	37-Department of Food	166,09	120,57	45,52	27.4

1.	2.	3.	4.	5.	6.
31.	39-Ministry of Food Processing Industries	11,61	6,11	5,50	47.4
32.	42-Ministry of Home Affairs	17,00	..	17,00	100
33.	48-Department of Youth Affairs and Sports	2,28	1,81	0,47	20.6
34.	49-Art and Culture	20,00	..	20,00	100
35.	54-Ministry of Information and Broadcasting	6,85	5,20	1,65	24.1
36.	55-Broadcasting Services	346,14	261,67	84,47	24.4
37.	56-Ministry of Labour	1,10	0,25	0,85	77.3
38.	59-Ministry of Personnel, Public Grievances and Pensions	4,75	0,50	4,25	89.5
39.	65-Department of Science and Technology	30,75	21,10	9,65	31.4
40.	73-Ministry of Textiles	271,53	215,98	55,55	20.5
41.	80-Atomic Energy	592,32	419,83	172,49	29.1
42.	83-Department of Ocean Development	6,81	3,09	3,72	54.6
43.	84-Department of Space	95,55	70,24	25,31	26.5

APPENDIX IV

(Refers to paragraph 2.5)

Major variations in recoveries

Details of major variations between budgeted recoveries and actuals adjusted in reduction of expenditure are given below:

Sl. No.	Grant	Budget Estimates	Actual recoveries	Variation	
				Amount	Percentage
1.	2.	3.	4.	5.	6.
			(Rupees in lakhs)		
Short recoveries against budget estimates					
	Revenue				
1.	2-Other Services of Department of Agriculture and Cooperation	60,33	4,12	56,21	93
2.	5-Department of Fertilizers	1259,00	990,46	268,54	21
3.	40-Department of Health	15,09	7,62	7,47	49
4.	56-Ministry of Labour	31,37	11,03	20,34	65
5.	73-Ministry of Textiles	20,00	3,79	16,21	81
6.	77-Stationery and Printing	35,00	24,63	10,37	30
7.	92-Dadra and Nagar Haveli	16,00	0,30	15,70	98
8.	94-Chandigarh	45,20	15,78	29,42	65
	Capital				
9.	19-Department of Coal	15,00	..	15,00	100
10.	25-Currency, Coinage and Stamps	86,47	64,52	21,95	25
11.	35-Direct Taxes	90,00	52,58	37,42	42
12.	37-Department of Food	140,00	96,58	43,42	31
13.	72-Ports, Lighthouses and Shipping	30,70	9,47	21,23	69
14.	91-Andaman and Nicobar Islands	17,25	11,51	5,74	33

Appendix-V

(Refer to paragraph 3.3.5(i)

Statement showing funds released (Government of India share) and funds utilised out of (out of Government of India's share) under the National Watershed Development Programme for Rainfed Areas.

(Rupees in lakhs)

Sl. No.	State	1986-87		1987-88		1988-89		1989-90		Total	
		Funds released	Funds utilised	Funds released	Funds utilised	Funds released	Funds utilised	Funds released	Funds utilised	Funds released	Funds utilised
1.	Andhra Pradesh	52.35	46.89	240.00	192.14	304.52	258.40	342.10	321.00	938.97	818.43
2.	Assam	10.00	9.67	9.02	10.00	10.00	10.00	10.00	10.00	39.02	39.67
3.	Bihar	20.00	Nil	Nil	Nil	Nil	Nil	27.40	Nil	47.40	Nil
4.	Gujarat	Nil	Nil	80.75	91.08	191.63	101.54	229.70	245.22	502.08	437.84
5.	Haryana	161.00	57.78	Nil	52.52	Nil	8.42	Nil	10.72	161.00	129.44
6.	Himachal Pradesh	3.00	Nil	Nil	Nil	8.00	2.72	20.00	15.15	31.00	17.87
7.	Karnataka	371.96	102.68	Nil	196.12	341.78	359.80	295.80	205.19	1009.54	863.79
8.	Kerala	5.00	2.00	1.10	4.95	10.00	10.00	5.00	10.00	21.10	26.95
9.	Madhya Pradesh	18.80	9.74	40.10	13.55	50.00	23.10	37.10	76.62	146.00	123.01
10.	Maharashtra	504.77	Nil	Nil	304.53	317.30	312.74	349.90	289.73	1171.97	907.00
11.	Orissa	3.17	3.50	15.00	10.60	15.00	15.10	26.90	30.25	60.07	59.45
12.	Punjab	7.53	6.06	9.59	8.84	9.00	8.78	Nil	8.55	26.12	32.23
13.	Rajasthan	29.61	29.91	69.39	64.07	186.77	162.50	45.50	84.57	331.27	341.05
14.	Tamil Nadu	23.38	9.75	63.04	17.44	Nil	2.97	Nil	10.81	86.42	40.97
15.	Uttar Pradesh	110.20	Nil	75.49	112.10	182.25	175.28	204.20	238.60	572.14	525.98
16.	West Bengal	3.78	1.17	Nil	0.85	Nil	1.17	0.40	3.23	4.18	6.42
	Total	1324.55	279.15	603.48	1078.79	1626.25	1452.52	1594.00	1559.64	5148.28	4370.10

Source:- Ministry of Agriculture (Department of Agriculture and Cooperation), New Delhi

Note:- Data for the year 1990-91 were not available in the Ministry.

Appendix-VI

(Refers to paragraph 3.3.5(i)

Statement showing funds allocated, released and total expenditure incurred during 1986-87 to 1990-91 under the National Watershed Development Programme for Rainfed Areas.

(Rs. in lakhs)

Sl. No.	Name of State	Year	Financial outlay/allocation Centre	State	Total	Funds released Centre (figures in brackets as per Centre)	State	Total	Total expenditure (utilisation from Central Share within brackets)
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
1.	Andhra Pradesh	1986-87	NA	NA	NA	(52.35) 612.00	274.00	886.00	81.46 (46.89)
		1987-88	NA	NA	NA	(240.00) 400.00	356.00	756.00	402.55 (192.14)
		1988-89	NA	NA	NA	(304.52) 376.00	376.00	752.00	623.59 (258.40)
		1989-90	NA	NA	NA	(342.10) 400.00	400.00	800.00	642.06 (321.00)
		1990-91	NA	NA	NA	565.88	Nil	565.88	398.92
		Total				2353.88	1406.00	3759.88	2148.58
2.	Assam	1986-87	9.80	9.36	19.16	10.00	9.16	19.16	19.16 (9.67)
		1987-88	10.90	9.10	20.00	9.02	10.98	20.00	20.00 (10.00)
		1988-89	10.00	10.00	20.00	10.00	10.00	20.00	20.00 (10.00)
		1989-90	10.00	10.00	20.00	10.00	10.00	20.00	20.00 (10.00)
		1990-91	171.39	NIL	171.39	171.39	Nil	171.39	440.28
		Total				210.41	40.14	250.55	519.44
3.	Bihar	1986-87 to 1989-90	NA	NA	NA	47.40	Nil	47.40	Nil
		1990-91	393.50	Nil	393.50	50.98	Nil	50.98	Nil
		Total				98.38	98.38	Nil	
4.	Gujarat	1986-87	NA	NA	NA	Nil	Nil	Nil	Nil
		1987-88	NA	NA	NA	80.75	132.68	213.43	194.22 (91.08)
		1988-89	NA	NA	NA	191.63	102.87	294.50	214.20 (101.54)
		1989-90	NA	NA	NA	229.70	240.51	470.21	523.06 (245.22)
		1990-9	NA	NA	NA	528.50	86.39	614.89	468.05
		Total				1030	562.45	1593.03	1399.53
5.	Haryana	1986-87	161.00	25.00	186.00	161.00	25.00	186.00	115.57 (57.78)
		1987-88	NA	150.00	150.00	NA	108.00	108.00	105.04 (52.52)
		1988-89	NA	25.00	25.00	NA	18.82	18.82	16.83 (8.42)
		1989-90	NA	25.00	25.00	NA	22.07	22.07	21.44 (10.72)
		1990-91	NA	25.00	25.00	NA	23.25	23.25	21.74
		Total				161.00	197.14	358.14	280.62
6.	Karnataka	1986-87	120.00	120.00	240.00	371.96	NA	371.96	199.96 (102.68)
		1987-88	200.00	200.00	400.00	Nil	400.00	400.00	392.25 (196.12)
		1988-89	360.69	360.69	721.38	341.78	379.60	721.38	719.61 (359.80)
		1989-90	198.00	198.00	396.00	295.80	100.20	396.00	408.39 (205.19)
		1990-91	679.66	NA	679.66	751.82	Nil	751.82	619.16
		Total				1761.36	879.80	2641.16	2339.37

7. Kerala	1986-87	10.00	10.00	20.00	5.00	5.00	10.00	4.00	(2.00)
	1987-88	10.00	10.00	20.00	1.10	18.90	20.00	9.90	(4.95)
	1988-89	10.00	10.00	20.00	10.00	10.00	20.00	20.00	(10.00)
	1989-90	10.00	10.00	20.00	5.00	15.00	20.00	20.01	(10.00)
	1990-91	10.00	10.00	20.00	10.00	10.00	20.00	3.12	
	Total				31.10	58.90	90.00	57.03	
8. Madhya Pradesh	1986-87	NA	NA	NA	18.00	Nil	18.00	10.16	(8.74)
	1987-88	300.00	300.00	600.00	40.10	Nil	40.10	35.76	(13.55)
	1988-89	350.00	350.00	700.00	50.00	54.50	104.50	46.19	(23.10)
	1989-90	350.00	350.00	700.00	37.10	160.00	197.10	153.25	(76.62)
	1990-91	NA	NA	NA	305.18	Nil	305.18	22.61	
								(upto Nov.	
	Total				450.38	214.50	664.88	267.97	1990)
9. Maharashtra	1986-87	NA	NA	NA	504.77	NA	NA	Nil	
	1987-88	NA	NA	NA	Nil	NA	NA	609.05	(304.53)
	1988-89	NA	NA	NA	317.30	NA	NA	625.49	(312.74)
	1989-90	NA	NA	NA	349.90	NA	NA	579.49	(288.73)
	1990-91	NA	NA	NA	1304.10	NA	1304.10	141.30	
								(upto Dec.	
	Total				2476.07			1955.33	1990)
10. Orissa	1986-87	50.00	50.00	100.00	3.17	3.83	7.00	6.99	(3.50)
	1987-88	50.00	50.00	100.00	15.00	5.60	20.60	20.03	(10.60)
	1988-89	50.00	50.00	100.00	15.00	15.00	30.00	27.70	(15.10)
	1989-90	50.00	50.00	100.00	26.90	33.36	60.26	58.67	(30.25)
	1990-91	NA	NA	NA	NA	NA	NA	NA	
	Total				60.07	57.79	117.86	113.39	
11. Punjab	1986-87	10.00	10.00	20.00	7.53	6.05	13.58	12.11	(6.06)
	1987-88	10.00	10.00	20.00	9.59	8.84	18.43	17.68	(8.84)
	1988-89	10.00	10.00	20.00	9.00	8.85	17.85	17.61	(8.78)
	1989-90	10.00	10.00	20.00	Nil	19.34	19.34	19.34	(8.55)
	1990-91	45.80	Nil	45.80	29.29	--	29.29	29.23	
	Total				55.41	43.08	98.49	95.97	
12. Rajasthan	1986-87	46.42	45.98	92.40	29.61	NA	NA	56.13	(29.91)
	1987-88	69.34	69.34	138.68	69.39	NA	NA	129.30	(64.07)
	1988-89	162.50	159.85	322.35	186.77	NA	NA	140.00	(162.50)
	1989-90	164.50	161.85	326.35	45.50	NA	NA	160.51	(84.57)
	1990-91	974.35	Nil	974.35	845.08	Nil	845.08	833.64	
	Total				1176.35	NA	845.08	1319.58	
13. Tamil Nadu	1986-87	Spilt over work of Pilot Scheme			23.38	19.50	42.88	19.50	
	1987-88	100.00	100.00	200.00	63.04	17.77	80.81	18.50	
	1988-89	100.00	100.00	200.00	Nil	5.45	5.45	5.25	
	1989-90	100.00	100.00	200.00	Nil	50.00	50.00	22.66	
	1990-91	100.00	100.00	200.00	18.31	78.15	96.46	72.49	
	Total				104.73	170.87	275.60	138.40	
14. Uttar Pradesh	1986-87	200.00	Nil	200.00		110.20	Nil	110.20	Nil
	1987-88	200.00	112.10	312.10	75.49	112.10	187.59	224.20	
	1988-89	200.00	200.00	400.00	182.25	198.44	380.69	350.55	
	1989-90	200.00	250.00	450.00	204.20	248.57	452.77	477.20	
	1990-91	600.00	300.00	900.00	597.04	263.35	860.39	598.21	
	Total				1169.18	822.46	1991.64	1650.16	

15. West Bengal	1986-87	10.00	Nil	10.00	NA	NA	NA	3.12 (1.17)
	1987-88	5.00	4.50	9.50	NA	NA	NA	1.97 (0.85)
	1988-89	5.00	5.00	10.00	NA	NA	NA	2.33 (1.17)
	1989-90	5.00	5.00	10.00	NA	NA	NA	6.38 (3.23)
	1990-91	78.49	NA	88.49	NA	--	NA	
	Total				NA	NA	NA	13.80

NA :- Not Available

Source :- Data obtained from State Governments

Appendix VII

(Refers to paragraph 3.3.5(ii)

Diversion of funds

State and District/Water sheds		Year	Amount (in lakhs of rupees)	Nature of diversion
Andhra Pradesh				
i.a.	Adilabad	1988-89	2.20	To subsidy on imputs and implements issued to farmers outside the watersheds areas.
b.	Anantapur	and	17.72	
c.	Ranga Reddy	1989-90	1.76	
ii	Ranga Reddy	1988-89	32.74	Diverted to World Bank Pilot Project for watersheds development in rainfed areas in Maheswaran watershed in Ranga Reddy district. The diversion would have resulted in lower reimbursement of expenditure from the World Bank by Rs.32.74 lakhs.
iii	22 Sub-Divisions	1988-89	21.44	To works executed outside the watersheds.
iv.	Anantapur	1989-90	2.88	To works executed outside the watersheds.
v.	Commissioner of Agriculture	1986-87	9.94	To purchase of inadmissible items viz. six jeeps and 23 prints of 16 mm colour film titled Vardan'.
vi.	Adilabad, Anantapur, Chittoor, Mahaboobnagar, Prakasam, Ranga Reddy, Warangal and West Godavari.		4.06	To repairs of Jeeps, rent of office buildings, cost of furniture and survey instruments and wages of watchmen.
vii.	State Department		24.15	To salaries of regular staff.
viii.	State Department	1987-88 and 1989-90	18.61	To drilling of exploratory borewells.

Assam		1987-88 to December 1990	5.03	To purchase of vehicle (Rs.1.05 lakhs) meteorological equipments (Rs.0.26 lakh), 5 HP Pumpsets (Rs.0.36 lakh), boring for investigation of ground water resources (Rs.0.19 lakh), improvement of approach road (Rs.0.22 lakh), construction of Metrological observatory building (Rs.0.45 lakhs), construction of Meteorological installation (Rs.0.59 lakh), construction of godown at Korki (Rs.0.48 lakh) purchase of generator (Rs.0.12 lakh) and other miscellaneous items.
Karnataka				
i	Yelburga Soil Conservation Sub-Division	1990-91	5.90	To pay and allowances of staff deployed on other programmes.
ii	Tumkur	1990-91	6.49	To establishment and contingencies charges debited to Lakshmisagar Watershed which was considered saturated in 1989-90 and no work was implemented in the watershed in 1990-91.
iii	Adurnala Chapurahalli, Chikkahonnavalley and Kamakargirinala watersheds.	1986-87 to 1990-91	12.76	To demonstration conducted in areas outside the watershed.
Kerala		1987-88 to 1990-91	24.45	To construction/renovation of new/old wells which were not envisaged under the Programme.
Maharashtra				
i.	Ahmednagar (Nandur Khandarmal watershed)	1986-87 to 1989-90	5.34	To soil conservation works done in areas outside the watershed.
ii.	Bhandra, Chandrapur Kolhapur, Nagpur and Pune districts		6.61	To methematical and survey instruments distributed in the districts not covered under the Programme.
iii.	Department of Agriculture, Animal Husbandry, Dairy Development and Fisheries.	1988-89	8.37	To purchase of audio-visual equipment for strengthening six Soil Conservation Training Institutes.
Orissa				
	Soil Conservation Officer, Koraput, Assistant Soil Conservation Officers Koraput and Rayagada and Principal, Soil Conservation Training Institute, Koraput.	1986-87 to 1989-90	4.70	Rs.1 lakh each to the Soil Conservation Officer, Koraput for training activities and Director, Soil Conservation, Orissa. The amounts were lying unspent. Cost of television coluor TV video cassette projector, furniture, generator amonia printing machine, tyres, maintenance of structure and plantation chargeable to State Account and payment of arrears of electricity charges, etc.

Punjab				
i.	Sathwan Rauli watershed	1990-91	4.56	To purchase of RCC pipes
ii.	Ropar	1990-91	0.75	To purchase of plain paper copier, a television and video cassette recorder.
iii.	Conservator of Soils, Chandigarh	1987-88 to 1989-90	2.37	To travelling allowance of regular staff of the Department chargeable to the head to which salaries of staff were being charged.
Rajasthan				
i.	Alwar (Siyakho) Bharatpur, (Khansurjapur Kalsada), Ajmer(Madhogarh-Rampura) and Banswara (Pipalkhunt and Bhungra)	1986-87	49.82 to 1990-91	Major portion of the expenditure related to crop production and soil conservation activities in watersheds not selected under the Programme (Rs.21.32 lakhs); to pay and allowances of the soil survey unit for conducting survey in areas not connected with the Programme (Rs.14.00 lakhs); to purchase of seven jeeps, TV monitor, six VCP, one video cassette recorder and one photocopier (Rs.9.57 lakhs), etc.
ii.	State as whole		20.03	Incurred on staff utilised in places other than watersheds identified under the Programme.
Tamil Nadu				
	As a whole	1989-90	1.32	To purchase of items such as film projector, video camera, video cassette recorders, colour television sets.
Uttar Pradesh				
i.	Director of Agriculture, Lucknow	1987-88	7.44	
ii.	Kanpur and Mirzapur districts	1987-88 to 1990-91e	28.87	To establishment charges where no watershed projects were taken up during the Seventh Plan.
West Bengal				
	Bankura district	1986-88	0.76	Utilisation of 75.20 MT of cement for purposes not covered under the Programme.
			330.89	

Appendix VIII

(Refers to paragraph 3.3.5(iii)

Rush of Expnditure

Name of State	Year	Total expenditure during the year	Total expenditure during the month of March	Percentage
		(Rs.in lakhs)		
1. Assam	1986-87	19.16	19.16	100
	1987-88	20.00	20.00	100
	1988-89	20.00	20.00	100
	1989-90	20.00	20.00	100
	1990-91	40.28	40.28	100
2. Gujarat	1986-87	194.22	193.00	99
	1988-89	214.20	69.09	32
	1989-90	523.06	182.97	35
	1990-91	468.05	336.13	72
3. Haryana	1986-87	115.57	43.73	38
	1987-88	105.04	37.05	35
	1988-89	16.83	12.97	77
	1989-90	21.44	6.54	31
	1990-91	21.74	6.43	30
4. Kerala	1987-88	9.90	9.40	95
	1988-89	19.98	8.88	44
	1989-90	20.04	8.70	43
	1990-91	20.00	20.00	100
5. Punjab (Hoshiarpur	1987-88	15.69	13.18	84
and Ropar	1988-89	15.95	14.21	89
districts)	1989-90	16.41	15.37	94
6. West Bengal	1986-87	3.12	2.51	80
	1987-88	1.97	1.70	86
	1988-89	2.33	1.02	44
	1990-91	6.38	5.45	85
		1931.36	1107.77	

Appendix IX
(Refers to paragraph 3.3.5(iii)
Drawal of money to avoid lapse of grants

Name of State/Districts	Year	Amount (Rs. in lakhs)	Remarks
Andhra Pradesh			
1. State Department	1988-89 to 1990-91	47.94	Amount drawn and kept outside the Government Account in the shape of demand draft pending receipt of material.
2. In Adilabad, Chittoor, Mahaboobnagar and Prakasam districts	1989-90	26.80	Amount drawn in advance pending receipt of materials.
3. Social Forestry Division, Ranga Reddy, Prakasam Chittoor and Warangal	1989-90 to 1990-91	7.53	Amount kept in banks by opening saving bank accounts
4. Director of Agriculture and four Divisions	1988-89 to 1990-91	52.10	On Account Advance drawn.
Assam	1990-91	40.28	Amount drawn in March 1991 and kept unspent with the Director of Agriculture, Assam till May 1991.
	1986-87 and 1989-90	17.38	Rs.15.56 lakhs drawn unadjusted and Rs. 1.82 lakhs in bank current account.
Kerala			
District Soil Conservation Officer, Palakaddu	1990-91	16.88	Amount kept as Demand Draft.
Maharashtra		24.38	Amount drawn from treasury before receipt of materials and unutilised for periods ranging from 4 to 7 months.
Orissa			
i. Assistant Soil Conservation Officer, Koraput, Rayagada and Nandapur	1988-89	15.26	Amount kept under civil deposits outside the Government Account.
ii Soil Conservation Officer, Koraput	1989-90	0.20	Kept as Deposit-at-call.

Punjab	1986-87 to 1990-91	28.97	Amount kept in cash chest or in bank account of the Divisional Soil Conservation Officers.
Rajasthan	1990-91	620.26	Amount transferred to Personal Deposit Account of DRDA, Jaipur on 31st March 1991.
	1986-87	36.00	Funds transferred on 31st March 1987 to RAJFED and RSSC for supply of inputs even before taking up soil conservation measures.
Uttar Pradesh	1987-88 to 1988-89	77.11 119.56	Amount deposited in the Personal Ledger Account of the Director of Agriculture and remained unutilised for period ranging between 4 and 21 months.
		1130.65	

Appendix X

(Refer to paragraph 3.3.5(iii)

Advances treated as final expenditure

Name of State	Year	Amount of advance shown as finally expended on programme	To whom advanced
		(Rs. in lakhs)	
1. Andhra Pradesh	1989-90 to 1990-91	5.17	Forest Department, Chittoor, Divisional Forest Officer, Chittoor, Mahaboobnagar and Prakasam, Horticulture Officer, Chittoor and Assistant Director of Agriculture.
2. Assam	1990-91	0.38	Assam Seeds Corporation Limited, Nagaon.
3. Gujarat	1987-88	104.63	Gujarat State Fertilizer Company (Rs.94.00 lakhs) and Gujarat Agro Industries Corporation (Rs. 10.63 lakhs).
4. Kerala	1987-88 to 1989-90	4.51	Director of Agriculture, Kerala.
5. Maharashtra	1989-90	46.30	Maharashtra State Seeds Corporation (Rs.22.38 lakhs) and Maharashtra State Cooperative Oilseeds Growers Federation (Rs.23.92 lakhs)
6. Orissa	1987-88 to 1989-90	34.10	Deputy Director of Agriculture, Jeypore (Rs.29.73 lakhs), Deputy Director of Horticulture, Koraput (Rs.2.57 lakhs) and Principal Soil Conservation Training Institute, Koraput (Rs. 0.90 lakh), etc.
7. Rajasthan	1986-87 to 1990-91	700.76	Rajasthan State Seed Corporation (Rs.8.50 lakhs), Rajasthan State Cooperative Marketing Federation (Rs.45.50 lakhs), Rajasthan Tribal Area Development Cooperative Federation (Rs. 26.50 lakhs) and Departmental Units/Division through District Rural Development Agency, Jaipur (Rs.620.26 lakhs)
8. Uttar Pradesh	1987-88	110.49	District Agriculture Officer, Banda, Hamirpur and Jhansi (Rs. 37.29 lakhs, Rs. 37.10 lakhs and Rs. 36.10 lakhs respectively).
		1006.34	

Appendix XI

(Refer to paragraph 3.3.5(iii)

Non-adjustment of advance and outstanding utilisation certificates

	Name of State		Name of executing agencies to whom advances were given	Period	Amount (Rs. in lakhs)	Remarks
1.	Assam		Two contractors	1988-89 to 1989-90	0.58	Advances to contractors.
2.	Maharashtra	i	Maharashtra State Seeds Corporation	1990-91	22.38	
		ii	Maharashtra State Cooperative Oilseeds Growers Federation (MAHAFED)	1990-91	23.92	Though MAHAFED returned the advance by cheque but it was not encashed till it was time barred.
3.	Orissa	i	Deputy Director of Agriculture, Jeypore	1988-89 and 1989-90	7.59	
		ii	Deputy Director of Horticulture, Koraput	1988-89	0.47	
		iii	Assistant Soil Conservation Officer, Nandapur	1989-90	1.00	
		iv	Director of Soil Conservation, Orissa	1989-90	1.00	
		v	Soil Conservation Officer, Koraput	1988-89	1.00	
4.	Rajasthan	i	Rajasthan State Cooperative Marketing Federation	1986-87 and 1988-89	6.19	
		ii	Rajasthan Tribal Area Development Cooperative Federation	1988-89 and 1989-90	5.40	
		iii	Rajasthan State Seeds Corporation	1986-87	0.31	
					69.84	

Appendix XII

(Referred to in paragraph 5.2.1)

Yearwise production, imports and consumption of fertilizers

	Production	Imports	Consumption	Import as a percentage of consumption
	(in lakh tonnes of nutrient)			
1978-79	29.40	19.90	51.17	38.89
1979-80	29.83	20.05	52.55	38.15
1980-81	30.05	27.59	55.16	50.02
1981-82	40.93	20.41	60.64	33.66
1982-83	44.04	11.32	63.88	17.72
1983-84	45.33	13.55	77.10	17.57
1984-85	51.81	36.24	82.11	44.14
1985-86	57.56	33.99	84.74	40.11
1986-87	70.70	23.10	86.45	26.72
1987-88	71.31	9.84	87.84	11.20
1988-89	89.64	16.08	110.40	14.57
1989-90	85.43	31.14	115.6	826.92
1990-91	90.45	27.58	125.76	21.93

Source: Department of Fertilizers, New Delhi

Appendix XIII
(Referred to in paragraph 5.2.1)

Prices of urea, di-ammonium phosphate and single super phosphate

Effective from	Urea	Di-ammonium phosphate	Singlesuper phosphate	
			Granu-lated	Powder
		(Rupees per tonne)		
2nd February 1979	1550	2210	-	-
10th March 1979	1450	2000	-	-
8th June 1980	2000	3050	-	-
11th July 1981	2350	3600	1070	940
29th June 1983	2150	3350	1000	850
31st January 1986	2350	3600	1100	950

Source: Fertilizer Statistics (1988-89) - Fertilizer A

Appendix XIV
(Refers to paragraph 14)

Statement of losses and irrecoverable revenues written off during 1990-91

(Amount in lakhs of Rupees)

Name of Ministry/ Department	Write off of losses due to						Waiver of recovery	
	Failure of System		Neglect/fraud		Other reasons			
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Agriculture					1	0.09		
Atomic Energy					7	0.38		
Energy	1	0.06			7	0.45		
Finance					4	384.45		
Food & Civil supply					2	0.07		
Home (including Union Territory of Andaman and Nicobar)			1	2.68	9	0.92	1	0.07
Information and Broadcasting					2	0.08		
Space					6	0.31		
	1	0.06	1	2.68	38	386.75	1	0.07

E R R A T A

Page	Line	For	Read
i	12th	receipts	return thereon
vi	10th	fertilise	fertilisers
01	16th (Column 5)	Statement No.8	Statement No.9
09	16th	1.38	1.35
11	16th	28 per cent	23 per cent
12	8th from bottom	101 per cent	106 per cent
13	21st	(5253)	(5353)
16	9th (of last column)	176	1762
18	13th (Col.2)	3608.35	3608.25
	22nd (Col.3,4,5 & 6)	25.01 25.07 31.33 25.00	789.20 960.60 1196.40 1523.60
	29th (Col.6)	69.50	69.58
	34th (Col.3,5 & 6)	1.23 1.50 0.19	1.30 1.48 1.54
19	5th (Col.2,3 & 6)	0.50 2.12 4.64	0.65 0.62 4.69
24	24th (Col.3 & 5)	12 1	8 12
	4th from bottom (Col.4)	35350	35550
	2nd from bottom	0049.03	0049-03
26	16th (Column 5 & 6) 23rd	1290 47 314576 129047	129029 314558 129029
35	9th from bottom	Recipts	Receipts
	(Column 1) (Column 6)	Recipts 67188	Receipts 67288
56	11th & 12th	6405-190 Loans to Fisheries Co-operatives	6405-195 Loans to Fishermens Co-operatives
56	15th	140-Loans	190-Loans
66	18th	III	VII
70	2nd (table)	Achievemen	Achievement
77	16th	was	were
92	2nd	ssedlings	seedlings
	7th from bottom	Though	Although
99	4th from bottom	173.66	173.56

Page	Line	For	Read
104	8th & 9th from bottom	physical or.... ...... of asset	deleted
106	8th Column 3 Column 5	289.60 -	289.61 289.61
107	8th	80.56	80.58
131	2nd	Department	Ministry
132	3rd from bottom	the loans	the outstanding loans and interest are indicated; but information is not complete. Also the amounts of loans
135	4th	1989-91	1989-90
	22nd (Column 3)	(1.5)	(1.50)
	12th from bottom Column 4 Column 5	- -	(50.00) (50.00)
	6th from bottom Column 4 Column 5	(8.35) (8.35)	(0.25) (0.25)
	2nd from bottom Column 4 Column 5	- -	(8.35) (8.35)
188	3rd from bottom	On export	export
194	5th from bottom	Pond	Pound
197	15th from bottom	instutute	Institute
201	7th from bottom	concenssions	concessions
202	1st	-	the duties paid on the inputs contained in the
	1st from bottom	appropriate percentages of domestic production	deleted
207	5th from bottom	1988-89	1989-90
208	12th from bottom	full	pull
216	13th (Statement)	11250	11260
221	21st	`DGSD's	Defence
225	20th	Unit, for at	Unit, at
231	11th 4th from bottom	Phoenix Roy Naptha	Phoenix Bay Nathpa
233	9th 5th from bottom	337.19 (Interest) bearing)	337.20 (Interest bearing)
235	2nd & 3rd from bottom	due mainly	mainly due
237	22nd	to expenditure	to revenue expenditure e.g. consul[illegible] fees need also to be reviewed in relation to expenditure.

Page	Line	For	Read
239	7th	March, 1990	March 1990 issue
	9th	10,000	10,000 copies
246	15th from bottom	3.612	3,612
251	16th	mills	Mills)
252	7th from bottom	industries	industries)
253	10th	Acquistion	Acquisition
	13th	(Head 3475)	-
255	20th	nil	(nil)
260	13th	Quaternary	Quarternary
274	8th	5.1	12.3.5(i)
294	8th from bottom	writing of	writing off
317	13th from bottom (5th column)	26.33	26.34
	15th from bottom (3rd column)	16.68	16.69
319	8th (Column 3)	(0.01)	(Nil)
325	Sl.No.1 (Column 8)	102.52	104.52
336	3rd	out of	deleted
340	5th	construction of Meteorological	construction of security fencing of Meteorological